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PRESIDENT'S NEW FEDERALISM INITIATIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

APRIL 29, 1982
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PRESIDENT'S NEW FEDERALISM INITIATIVES

THURSDAY, APRIL 29, 1982

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Minneapolis, Minn.

The subcommittee met at 9:30 a.m. in the Great Hall, Coffman Memorial Union, University of Minnesota, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

MORNING SESSION

Senator DURENBERGER. The hearing will come to order.

This is a hearing of the Subcommittee on Intergovernmental Relations of the U.S. Senate. We are convening in Minneapolis, Minn., this morning to consider and take testimony on President Reagan's New Federalism initiatives.

Our first witness and honored guest is C. Peter Magrath, president of the University of Minnesota. President Magrath, we are delighted to be on your campus for this hearing and look forward to your opening remarks.

TESTIMONY OF C. PETER MAGRATH, PRESIDENT, UNIVERSITY OF MINNESOTA

Mr. MAGRATH. Senator Durenberger, I promised myself—and, indirectly, your staff—that I would keep my welcoming remarks brief. The best protocol would have me recognize too many of the individuals associated with your hearing and this noon's Carlson lecture. It would take all the time I dare claim as host's prerogatives, so I will take the expedient of simply welcoming all of you to the Twin Cities campus of the University of Minnesota.

I must first say that Hubert Humphrey would have been pleased, as only he could be, with the day's activities you have before you. The whole idea of combining this subcommittee's hearing with the second of the Humphrey Institute's Carlson lecture—bringing together the representatives of many levels and branches of government, students and faculty from many disciplines, people from the private sector, and the general public—was what he had in mind for the Humphrey Institute. I almost feel that I should make a long speech on his behalf; but I know my limits, and I knew his capabilities.

Speaking, therefore, for myself and this university community, I believe that it is especially appropriate to have this mix of people dis-

cussing the "New Federalism" on a university campus. I'm proud that it can be on our campus.

This year's debates on the New Federalism have not, in fact, involved much discussion of the specific roles and programs of the universities. The debates have dealt with either a very abstract idea, or a series of very specific issues surrounding particular programs at the various levels of government. This year's specific proposals do not directly involve many programs typically associated with universities. I suspect that more than a few university presidents view this with some measure of relief. I would suggest, however, that major research universities, especially land grant universities, do have a major stake in this whole debate—both at the abstract, philosophical level and at the level of specific programs directly or indirectly affected by the decisions that will be made.

The New Federalism poses important public policy questions that are intimately tied to our teaching, research, and service missions. It encompasses major topics whose exploration is vital to academic units like the Humphrey Institute, and a good many others, which will be represented by faculty and students attending today's sessions. This is one of the right places to air the debate. The university is one of those right places because it is an institution that deals with almost any topic, any issue. It is also the right place because the university deals with every sector of society and every conceivable level of government, from the most local to the most international.

Thankfully, we receive financial support from all sectors of society and all levels of government. In return, we serve them all with activities ranging from the most local services to international efforts and even activities in outer space. This breadth of activity and support has brought universities to understand the highly complex interrelationships among sectors of society and levels of government. Having learned these relationships as they developed, I hope you understand that universities get nervous with proposals for change. Frankly, we are nervous about the New Federalism. It took us a while to learn how to deal with the Old Federalism, or whatever we should be calling it.

Financial self-interest aside—and it's difficult to do that these days—we are concerned that new approaches to intergovernmental relations protect and improve the proper roles of the Federal Government as these roles relate to the national resources which we call research universities. We are concerned that we not find ourselves lost in the shuffle. We are concerned that major funding shifts do not somehow prevent thoughtful and appropriate consideration of Federal expenditures for university programs which serve the national interest.

These may or may not be immediate concerns, given the specific proposals currently before the Congress, but they are concerns to be kept in mind. Obviously, we do not have any magic formulas to determine the proper mix of State, Federal, and international support for university activities. The proper mix varies by activity and often by accident and opportunity. I'll just cite one example.

It was hard to choose an example. The Humphrey Institute is loaded with activities that could illustrate my point. I'm sure the Institute faculty would like me to list all of them. They outnumber you, Senator,

but it's your hearing. You're my audience, so I picked something closer to your home, quite literally if you go back a few years.

You were once a neighbor to Prof. Charles Fairburst, chairman of our department of civil and mineral engineering. His department's activities can serve as the illustration of the complicated interrelationships we have to sort out. As you know, Charles heads an international department. It is internationally famous for its work in mining technology, and underground space—to name a few.

It is international in that its faculty and students come from all over the world, take jobs all over the world, and conduct programs all over the world. Some of the work is funded by other governments and international agencies, as well as by private corporations. This department is a national resource in the same ways. Faculty and students come from and go to all parts of the country, projects range from national interest topics to local problems in a wide variety of locales, and funding comes in accordingly.

Finally, this department is a State and local resource. It conducts research, teaching, and service activities of specific concern to the State of Minnesota and local communities all over the State. Because of this, it is supported by State and local tax revenues and private donors. Interestingly, its State support has been particularly good in recent years, in that the Legislative Commission on Legislative Resources has been willing to fund some far-sighted research projects that were not politically safe. The legislature has also funded a most unusual and experimental building for the department, most of which is underground.

My point in this illustration is that this is one department of many at this university that serves a highly varied constituency. All the parts of that constituency have a stake in the department's work, and each has a proper responsibility to provide the wherewithall to get the work done. No new pattern for intergovernmental relations, however elegantly conceptualized or however negotiated in the political process, will give a simple answer to the question of deciding the department's priorities or the proper source of financial support. Some of these questions simply cannot be answered at the State or local level, nor can they be answered only in Washington or somewhere else. They will be answered imperfectly in a sometimes bewildering complex of settings, but good people have come to find their way in that complex. I worry about changes designed to solve some intergovernmental problems that could create other problems for us.

I do find some comfort in my assumption that your subcommittee and the Humphrey Institute won't solve all the problems today. I also find comfort in the assumption that you will always be willing to listen to us. Thanks for coming.

Senator DURENBERGER. Thank you very much. Thank you for your kind comments and for your enlightening observations. It reminded me of a couple of things. That is, there is a notion abroad which various people may address, that the New Federalism is a process for abolishing Federal Government, which is more abolishing than anybody can tolerate or undertake. Also, there is a notion abroad that these categorical grants were recommended probably by a liberal Demo-

crat, undoubtedly somewhere in the 1960's, and now that the Republicans appear to be in charge, this is all going to be undone.

The fact of the matter is that—it is appropriate to mention it here, I guess—the first grant program started under a Republican, President Abraham Lincoln. It was associated with the land-grant colleges called the Morrill Act. So, what we are about is not abolition. It is finding, to the best of our ability, a better way to meet our responsibilities. I thank you for reminding us of that.

Mr. MAGRATH. Thank you, sir.

Senator DURENBERGER. Although this is an official hearing of the U.S. Senate, we are going to bend the rules a bit, today. Federalism is not an easy issue and, until recently, was not a headline grabber.

When I became chairman of this subcommittee last year, I laid out what I thought was an ambitious and interesting hearing schedule. I don't know whether my colleagues found the agenda too ambitious or not sufficiently interesting, but I found few Senators willing to put in the time to invent a New Federalism. So I invented a new format for Senate hearings. Not only do we invite witnesses, but we name our own Senators. We ask those who have thought some about these subjects to join us on this side of the table, as well as in the witness chair.

Today, we are going to continue this practice. After testifying this morning, Governor Snelling will be joining me as a Senator for the remainder of the day. We will also be joined by Prof. Arthur Naftalin of the Humphrey Institute, who has thought as deeply and with as much useful result as any Minnesotan on the subjects of federalism and intergovernmental relations. We were going to have Rich Williamson be the White House Senator for the day, but he is busy helping the President write a speech for tonight. He will undoubtedly have something to say. So he is unable to be here today. However, that gives Arthur a chance to play Senator for the day.

Arthur is a former mayor of Minneapolis with 7 years on the Advisory Commission on Intergovernmental Relations. He now brings public issues to a wider Minnesota audience on his weekly interview program. I would like, at this time, to introduce Art Naftalin.

TESTIMONY OF ARTHUR E. NAFTALIN, PROFESSOR, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA

Mr. NAFTALIN. Thank you very much, Senator. I can't tell you how pleased I am to be surrogate senator for a day. It fulfills a career-long fantasy which I suspect is rather widely shared by many of my political academic colleagues. I am really delighted to be on this side of the table. I will try to keep my euphoria from distracting me from my proper responsibilities.

I would like to add to what President Magrath and Senator Durenberger have said about the appropriateness of holding a hearing of this type on the University of Minnesota campus. We have had at this university a great and long involvement in the debate over federalism. Many of our leaders have played a distinguished role in this debate. Hubert Humphrey was a member of the Kestnbaum Commis-

sion. Orville Freeman was a member of the Federal-State Joint Action Committee appointed by President Eisenhower. And a number of us have served on the Advisory Commission on Intergovernmental Relations [ACIR]—including now Congressman Martin Sabo, former Speaker of the Minnesota House of Representatives and Senator Durenberger and myself. We can trace Minnesota's involvement back many years to the distinguished, pioneering work of William Anderson, professor of political science, whose book "The Nation and the States: Are They Rivals Or Partners?" became a minor classic in the field.

It seems to me that the title of that book can very well set the keynote for not only our hearing today but for the continuing debate over federalism. It is clear that governments at all levels are having extraordinary difficulty today trying to contend with the growing problems of the Nation.

The criticisms on Federal-State relations that ACIR has made over the years I accept as justified. Our Federal system is congested and there is a great deal of cause for concern because of duplications, overlappings, bureaucratic excesses and a lack of accountability. We all know the deficiencies and we all know they urgently need to be remedied. Yet I think we should proceed with awareness of two historical facts—facts that should be incorporated as part of our analytical approach.

One historical fact is that through many administrations—as Senator Durenberger has suggested in his opening comments—whether Republican or Democratic, the Federal Establishment has grown. It has grown with the votes of Republican and Democratic majorities in both Houses of Congress, as new problems have arisen and as new pressures and new interests have developed. This has gone on with intensifying force since the 1930's, and behind that force are deep imperatives in our societal organization.

The second historical fact that I wish to point to is that there have been repeated efforts pointed at reform over the last years—efforts to devolve responsibility out of Washington and to reestablish States' rights. These efforts have proceeded under different slogans and they have all failed. We need to inquire as to why they have failed. We need to understand, first, why the Federal Establishment has grown relentlessly; and, second, why all efforts to reform the system have failed.

With respect to the first—and I hope our testimony today will add real insight on both of these questions—I believe that the Federal Government has expanded relentlessly because it has been the only level of government that could or would respond to our problems. The States were either unwilling or unable to respond to them and so the cities went to the National Government.

This has been true of almost every functional program. The States were not able to build the highway systems we need. The States were not able to provide the hospitals we need. The States were not providing the libraries and were not adequately supporting our educational system. The States were not attacking the problems of discrimination and segregation.

The Federal Government did respond. It responded, in part, because it was accessible. This touches a very central point of our concern over

federalism. If we could not get what we wanted from Congress, we went to the President. If we could not get it from the President, we went to the courts. Our separation of powers made it possible for us to penetrate the cracks in the Federal system. I think it is a point that we need to clearly understand as we try to grapple with reform. This has been our glory and our weakness. Our National Government has been accessible to the people of the Nation, to the interests of the Nation, and to the pressures of the Nation. That accessibility has created the problem. Now the question is: "How do we join to accessibility a measure of discipline?" That is what we are seeking.

That raises the whole question as to whether the reform efforts that we seek can really succeed if we talk only in terms of Federal-State relationships; or, whether we need to examine the whole question of the separation of powers in our system to make the President and Congress part of one coherent government; and the question of what to do with respect to the court system and its independence in initiating and executing certain kinds of public policy.

One of the things behind the Federal-State concern has been the awareness that the States are not adequate partners. ACIR now says—and Senator Durenberger strongly supports this contention—that the States are experiencing a capacity revolution; they are now adequate; they can now assume the responsibilities that for so long had been exercised in Washington. This is the basic underlying assumption of the New Federalism.

I hope that this hearing will yield new insights on this basic question: "In truth, do our States now have the capacity to assume these new responsibilities?" This is a vital and central question in the whole matter of the New Federalism. I hope in today's hearings, and in our conference tomorrow morning on the St. Paul campus, that we will address the questions involved in the shifting of responsibility from the Federal to the State level; and whether we will, in that process, substitute one bureaucracy for another, creating new and even more costly bottlenecks. Many of us fear that is what will happen.

What will we do with respect to interstate competition? Will the strong States feed off the weak? We, as a weak energy State, have reason to be very much concerned about our relative position in competition with other States. Within the States, who will protect the weak in the political scramble for the limited dollar? How can we make our State governments financially viable in a time when we can't even sustain our infrastructure, when we can't meet our current bills? Basically, we are asking the question, "Is there administrative capability and how do we achieve it?"

It is no secret to many of you here that I remain strongly committed to the Federal approach. I regard myself as a kind of unreconstructed, unrepentant Federalist, but I am willing to learn, Senator. I am going to listen very patiently. I do believe that, with the growing disparities in the country, it is necessary for us to not only maintain our Federal Government but to strengthen it. We need to have in place a strong and cohesive, sensitive and responsive national government. But I also recognize that we need reform. The trick is to get both—a stronger national government and reform that finds a proper place for States and localities. I hope these proceedings will make—and I'm

sure they will—a contribution to our understanding of how we can achieve both of these somewhat contradicting goals. Thank you.

Senator DURENBERGER. Thank you very much, Professor Naftalin.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator DURENBERGER. My purpose in speaking this morning is to lay a common foundation of understanding on which we can build today's discussion and debate. I will describe the major elements of the President's New Federalism, the current status of the negotiations with elected officials from State and local governments, and three issues which I believe must be resolved as we move these proposals through the legislative process.

As most of you are aware, the President began his New Federalism with a swap involving medicaid, food stamps and aid to families with dependent children [AFDC]—all three income maintenance, or welfare, programs with recipients numbering between 10 and 20 million.

AFDC is the oldest of these three programs. It was part of the original Social Security Act passed in 1935. It is a basic cash payment to families with absent or disabled parents. Eligibility and benefit levels are determined by the States. The Federal Government currently shares financial responsibility for this program by matching the benefits paid by the States. President Reagan proposed to return full responsibility, both administrative and financial, to State governments as part of his New Federalism. If the States continued the program at current levels, they would bear an additional financial responsibility of $7 billion.

Medicaid has a structure very similar to that of AFDC. It provides medical assistance—health care coverage—principally to families with low incomes. Again, the Federal Government shares the financial responsibility by matching the expenditures of the States. President Reagan has proposed that we federalize medicaid. Although the precise meaning of "federalize" is not yet clear, at a minimum it means the Federal Government will assume more than its current share of the cost. If we relieved the States of their entire medicaid expenditure, outlays by the Federal Government would increase by about $19 billion.

The final program in this swap is food stamps. It has always been entirely a Federal program. It is the only income maintenance program that provides universal coverage. Eligibility is solely a function of income. No other test is applied. The administration's swap would drop Federal responsibility for this program. If States decided to continue the entire program, their expenditures would increase by roughly $11 billion.

This income security swap has been the biggest hurdle in the negotiations with State and local officials. They have, for many years, argued that income security should be a Federal responsibility. All major welfare reforms before the New Federalism pointed in that direction.

As a result of determined resistance from State and local officials, the White House has agreed to drop food stamps from further consid-

eration. It will continue as currently structured—a federally financed supplement to income. Negotiations continue on the future of medicaid and AFDC.

The second major element of the President's initiative is the turnback. Today, the Federal Government provides assistance to State and local governments through 400 or more grant-in-aid programs. Medicaid and AFDC are among those grants. However, we also have grants for highways, education, child nutrition, child welfare, sewage treatment, community development, fire protection, library construction, and almost every function of government one can name. The Federal Government spends $85 billion per year on these grant programs. In many cases, State and local governments match these expenditures with their own funds. Everything we do has become a shared responsibility in the Federal system.

At first blush you would think that this kind of benevolence would make Governors and mayors forever thankful for the Federal grant. The fact of the matter is that for over 10 years, Governors, mayors, legislators, and county commissioners have been demanding fundamental reform of the Federal grant system. Grants are golden handcuffs. They tie local governments into knots of redtape. They distort local priorities. They promise free Federal dollars, if only a few local dollars are added on top. It takes a book 6 inches thick to list a simple description of each program. State and local governments spend $5 billion each year just reporting on what they did with Federal money.

The Governors and mayors called for a sorting-out. We had a virtual drumbeat of demands to sit down at the table and negotiate a new division of responsibilities. President Reagan responded by proposing that we turnback 43 major program responsibilities to State and local governments. The Federal Government would get out of the grant business in adult and vocational education, employment and training, social services, maternal and child health, child nutrition and welfare, transportation, community development, and sewage treatment.

The third and final aspect of the President's initiative is the trust fund. Those 43 grant programs that we are asked to turnback had been providing about $30 billion in assistance for State and local governments. The President promised to return resources, as well as responsibilities. For the first 4 years under the President's proposal, the States will receive funds from a $28 billion New Federalism trust fund. The program is designed so that no State will experience a fiscal crisis as a result of the sorting-out process. In fact, the President promised no winners and no losers. The trust fund is to be financed from Federal excise taxes on alcohol, tobacco, gasoline, and telephone service and from the windfall profits tax on oil price decontrol. Beginning in the fifth year these taxes are to be phased out at the Federal level. The trust fund would be reduced by comparable amounts with the expectation that States will keep up by levying their own taxes.

There was one major flaw in the administration's trust fund. Sixty percent of it came from the windfall profits tax—$17 billion. When the windfall profits tax phases out, new tax capacity would be created for only a few States—five States with oil production. Those of us who watch these issues noticed this problem and raised the issue with the

White House in the early days of the negotiations. The windfall profits tax has been dropped from the trust fund with the promise that the transition phase, at least, will be financed with revenues from the general fund.

So those are the major elements of the President's package—a swap of income security responsibilities, a turnback of 43 grant programs, and a trust fund to finance the transition to a new Federal partnership.

I promise to raise three concerns. The first is income security. I count myself among those who believe that income security for all Americans should be a first priority of the Federal Government. Three arguments are most often put forward in support of this view. First, State and local officials do not have control over the economic factors that determine the size of the income security burden. The need for public assistance is determined by the performance of our national economy which is quite beyond the reach of a Governor or a mayor.

Second, the public assistance burden should be financed by a progressive tax. State and local tax systems have changed dramatically in recent years—more dramatically in Minnesota than other places. But no one would argue that they are progressive when measured by the standard of the Federal individual income tax. We ought not to finance programs like medicaid from the property tax.

Finally, the New Federalism is a competitive federalism. It attacks big government by pushing it down in the Federal system to where governments are more reluctant to spend for fear of lower tax rates in neighboring jurisdictions, tax rates that will influence the location of new jobs and investment. We ought not let the need for a basic subsistence living be defined as a function of this interplace competition. President Reagan doesn't see it that way. Based on his experience as Governor of California, he truly believes that only State and local governments can administer efficient and effective welfare programs. There is something to be said for this view. The needs of people vary greatly and the Federal Government is not known for its sensitivity to individual needs.

Shortly after the New Federalism negotiations began, I wrote a letter to the President describing some alternatives to specific elements of his proposal.[1] I tried to build a bridge on the income security question by accepting the basic arguments for more State and local discretion in the administration of welfare programs, while, at the same time, assuring that the financial resources would be adequate to meet people's needs. This bridge is a permanent federalism trust fund financed by the individual income tax. That portion of the trust fund devoted to income security would not phase out, but would grow as income tax revenues grow. It would provide a secure base for the income of those Americans who depend on public assistance.

The second concern I raised has come to be known by the phrase "fiscal disparities." It refers to the very different tax capacity of the 50 States and their local governments. To give you an example of current disparities, imagine that Texas and Mississippi had the same tax system—same income tax, same sales tax and same property tax. If that were the case, Texas would raise twice as much revenue per citizen as

[1] See p. 117.

Mississippi. Said another way, Texas only has to impose half the taxes imposed in Mississippi to provide the same level of services, and Texas is not the richest State in the Union.

Under the President's New Federalism proposal we would be dumping $50 billion of program responsibilities into a competitive interstate system, with some States greatly disadvantaged at the starting gate. Again, in my letter to the President, I suggested a specific alternative to resolve this problem. I believe that the dollars from the New Federalism trust fund—a trust fund which should be permanent—would be most fairly allocated among the States, if we took fiscal capacity into account. We won't be able to equalize fiscal capacity—making every State as rich as Alaska would cost $800 billion—but we ought to balance the accidental advantages and disadvantages to the extent we can. Balanced economic growth over the long run is in the best interest of the whole Republic.

My final concern is the future of local government. The New Federalism, as designed by the White House, is a dual federalism. There are only two, true partners in the administration's plan. One is our National Government. The other is the States. There is apparently no room for sovereign cities in the New Federalism. Many of the grant programs being phased out in the turnback support the basic infrastructure of our major metropolitan regions. However, none of the tax resources that are being returned are available as revenue raisers for city or county governments.

I don't see how a New Federalism can succeed unless it is based on the strength of local government. Today, local government is not a source of strength in America. Those of you who know local government only through Minnesota examples may not feel this concern in the same way that I do. For instance, 60 percent of all the dollars spent by local governments in the United States are provided through intergovernmental grants. How strong are you when more than one-half of your budget is dependent on the benevolence of a higher level of government?

We created the Old Federalism, the federalism of intergovernmental grants, to ease the fiscal distress of our cities. We taxed the suburbs with the income tax and sent the money back to the central city to support the services that created the wealth. In the Congress we have been doing metropolitan government for every big city in the Nation for the last 20 years. How much sense does it make to ignore the forces that created the Old Federalism while designing the New?

Those are my three concerns—income security, fiscal disparities and the future of local government. I know that we will have thorough and thoughtful comments on these and other issues at our hearing, today. I am happy that so many have found time to join us for this discussion. I look forward to sharing the thoughts of my fellow Minnesotans as the Congress debates the President's New Federalism initiatives.

I would like to insert into the record at this point an article which was printed in the Washington Post on April 16. This article also explains my thoughts on the New Federalism.

[The article referred to follows:]

[From the Washington Post, April 16, 1982]

About Those Obituaries for the "New Federalism"

(By Senator Dave Durenberger)

Much like the undertakers chasing an ambulance, the press is now rushing in to declare the death of the "new federalism." One is impressed by the swiftness and clarity of this editorial judgment, since so little was known about the illness that had afflicted this presidential initiative.

There is, of course, a plague in the land. Inflation and recession have bedeviled our economy for more than a decade. As a result, business is responding to tax cuts by lowering new investment. Unemployment is at a postwar high. And interest rates keep consumers at bay and workers idle. That our papers should be filled with obituaries is no surprise.

But the new federalism? Governors and mayors were under the impression that it was the old federalism that had given up the ghost. After two decades of boundless growth, federal assistance to state and local governments began to decline in 1979. Unable to control the uncontrollables, Congress was controlling the deficit by cutting the 500 grant programs that send 85 billion discretionary dollars through the intergovernmental pipeline. And state and local officials had launched a determined assault on the mandates and regulations that had tied the federal partnership into paralysis.

It seems only a few short weeks ago that the president offered a "bold stroke" to remedy these troubles of the old federalism. Far from being ill-considered, his framework was based on a decade of recommendations made by state and local interest groups. He offered full federal responsibility for the rapidly growing Medicaid program. He offered to return without strings programs that have always been administered by state and local governments. He offered to share federal tax resources to finance these programs. And he offered to negotiate the particulars and make the transition gradual.

Apparently, some believe that a remedy for our ills is not possible. Changes in the direction of American government, they insist, must be incremental. Going bankrupt a dollar at a time is possible because it is incremental. Taking bold action for recovery is a waste of time when all of us are so busy calculating the precise size of the deficit and guessing the day on which the debt will exceed $2 trillion.

There are those who ask that we put off any policy debate until we balance the budget. We are wasting our time pretending that we can balance the budget without making policy changes. As the Congressional Budget Office has reported, current policies mean that the budget is permanently out of balance and the deficits grow year by year. Scraping together a few revenue enhancers and denying cost-of-living increases for this year and next does not restore an underlying balance to the budget process.

The president has proposed that we return some important responsibilities to state and local officials. We have reached the point where very few Americans can comprehend the scope of federal activities. In addition to the 500 grant programs for state and local government, there are another 500 to assist businesses and individuals. The defenders of the status quo say that we dare not change these programs, because we do not understand them. What the American public understands is that the federal government is trying to do so much that it no longer has the understanding to do anything well.

The president has proposed that we make better use of all of our institutions including the marketplace, the voluntary association and the family to achieve our goals. We can no longer afford to doubt the capacity of these institutions to meet the needs of the American people. The balance we seek in the government's budget depends on a balance of responsibilities among all of our institutions. Income security for all Americans should be a first priority of the federal government. But that does not mean we should measure our security by the size of the Social Security check or the number of our citizens dependent on public assistance. Income security is part social insurance and part public assistance, but our goal as a nation should be for as many Americans as possible to achieve income security through their own earnings and savings.

Sweeping changes in health care, income security and federalism are risky propositions, if we can only trust the federal government. Those who doubt that consumers can make wise health care decisions, will defend the sick care sys-

tem run by the federal government. Those who doubt that Americans can achieve income security through earnings and savings, will insist that taxes be raised until jobs are scarce and saving beyond the reach of most families. Those who believe that state and local governments haven't changed in 50 years will pronounce an early death for any "new federalism."

Remedies for a troubled society are needed now. The Reagan remedies seek to decentralize America, relying on the health of our families, voluntary associations and local governments to give direction to our future. That congressional politicians and purveyors of public opinion fail to see renewed health by this remedy is no surprise. In the world of ambulance chasers, no remedy is appreciated.

Senator DURENBERGER. I am pleased that the main event is about to begin. Our first and principal witness at this hearing is Hon. Richard Snelling, who is the Governor of Vermont and the chairman of the National Governors' Association. If we ever do get a new Federal partnership in this country, I don't think there is any question that Governor Snelling will be remembered as the elected official of America who did more than any other to shepherd in the forces of change. He is both the intellectual godfather and the political midwife of the New Federalism. He came to the chairmanship of the National Governors' Association at a time when demands for change had reached a crescendo.

In my first days as chairman of this subcommittee, I remember clearly being beleaguered by all the proposals moving in all possible directions. He has guided the Association to focus on a careful process of sorting-out, on an intellectual and practical course, to determine which level of government would take on primary responsibilities for which programs.

We were very hopeful in those earlier days of 1981, but the budget battle held many disappointments. It was really in November of last year that the New Federalism was born because Governor Snelling stepped in, not as a statesman but as a politician, and went to Detroit for the National League of Cities meeting. He denounced the whole budget process as an economic Bay of Pigs. That got the attention of the White House. A few days later a group of us were invited, through the front door, to discuss the future of federalism after December 15, 1981. It was the League of Cities Convention and the State of the Union address of January 26, 1982, which followed, that became the New Federalism we are discussing today.

After the State of the Union, Dick Snelling returned to his role as a political midwife and turned the process from a consultation, by the White House with everyone else, into a negotiation.

Governor Snelling is a graduate of Harvard University and was majority leader for the Vermont House of Representatives before he was elected Governor. He is a businessman by profession and also a Republican—one who cares about the future of federalism.

Dick, we are honored to have you here with us today. I look forward to your statement.

TESTIMONY OF RICHARD A. SNELLING, GOVERNOR OF THE STATE OF VERMONT

Mr. SNELLING. Senator, thank you very much for holding this hearing. Arthur, I should probably address you as a Senator as well.

I'm not sure if we should really call this federalism. That is something that we should have to discuss.

Senator, if I am to be considered a midwife, perhaps my task at this hearing is to urge your consideration of a Caesarean section. A very needed birth is not occurring naturally. It is not occurring in a timely fashion. In my opinion, the perpetuation of the present situation poses grave dangers both to mother and child.

The U.S. Congress is acting as though they have plenty of time to deal with these problems of federalism, and they do not. It's time we stopped talking about it as federalism, and stopped pretending that one can entertain any one group of notions about the proper relationship between the Federal Government and the States of which it is comprised. We must agree that what we are talking about is centralization or decentralization. So we must stop trying to sort out the Federalist, or the true Federalist, or the non-Federalist.

Senator Naftalin, I can be an awful bore reading sections from the Federalist Papers to people who push my button. Incidently, at $2.95 for the paperback edition, this ought to be the best seller throughout America. I cannot understand why so many people talk about federalism but have never read the Federalist Papers. The debate that we are having has been going on, and was in fact mature, more than 200 years ago.

In the Federalist Paper No. 17, Senator Naftalin, when Hamilton wrote, "It may be said that it would tend to render the government of the union too powerful," he was talking about enabling the Federal Government to absorb those residual authorities which might be judged proper to leave with the States for local purposes. Hamilton was part right and part wrong. He was right that it wouldn't be good for the Federal Government to try to do everything. He was wrong that there would be no temptation to do something simply because it wouldn't work.

So here we have a situation in which the Nation is struggling with double digit inflation—greatly reduced in recent months—with interest rates which make it very difficult for businesses, large or small; and with unemployment which has reached catastrophic rates in many sections of the country, and which cannot be divorced from interest rates. This Nation has concerns about the adequacy of national defense; about the aged as to whether or not they are going to live out their lives in dignity; about a national energy policy; and about what the United States should do, if anything, with respect to Poland, Afghanistan, or the Falkland Islands. The Congress of the United States takes the position that it cannot deal with the problems of the relationship between the Federal and State governments because it is too busy. I want to suggest to you that, as long as it attempts to be everything to everybody, it is always going to be too busy.

We Governors are suggesting to the Congress that there is no greater urgency than that which deals with Congress' capacity in the future, to concentrate on those problems to which the American people expect them to provide leadership. In order to do that, the U.S. Government has to adopt a proper role with respect to the concerns of the States, and divorce itself from all the details of the hundreds of domestic grant-in-aid programs now filling committee dockets.

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I will summarize a great deal because, Senator, your summary of the circumstances was, in my opinion, so comprehensive and so correct it need not be repeated. One of my concerns with the hearing process that we have in the United States is that all too often hearings of this kind are held by those who already fully understand the problem. The problems in the U.S. Senate are those who cannot hold hearings on this subject because, if they did, they would hear testimony which would be contradictory to their cherished notions. So, I would rather not repeat what you have said. However, if you would arrange an opportunity sometime for me to say it to some of your colleagues, I would enjoy doing that.

What we must do is get the U.S. Government in the business of solving the problems of the United States. The Federal Government needs to establish a sense of equity and of justice in the maintenance of a living income for all Americans, which can be described in words such as "a standard of dignity under which people can live."

It does not follow, however, that having defined "a standard of decency," the Federal Government has to go on and describe "implementation" down to the smallest details. I recently was required by an act of Congress to put together in Vermont something to deal with early infant mortality. Do you know, Senator, that under the restrictions of the legislation—which I assume was debated by numerous committees of the U.S. Congress, and finally emerged after having received undivided attention of all Members of both bodies—I am required to name a commission in Vermont to deal with early infant mortality? That commission is required, by Congress, to have a membership three times as large as the total annual infant mortality in the State of Vermont. I'm not suggesting to you that this is a problem without concern, because it is a problem of immense concern. But I am suggesting that the Medical Center Hospital of the State of Vermont and the people of the State of Vermont are really better prepared to deal with that problem, in terms of understanding and even in terms of response, than is the U.S. Congress.

The problem is that, in detailing with such specificity this and all other programs, the Congress is not dealing with the big picture. So I would like to suggest that the Congress define the national interest by defining a reasonable standard for income maintenance and the Federal role in domestic affairs.

It isn't enough for Congress to simply define. The Congress must also assure equity. That is our constitutional right. The constitutional right is unchanged, undiminished regardless of which State a person is also a citizen. It is a fact that some States, because of their limited tax capacity, need to choose between either neglect or ruinous taxation. So, I think it is fair, right, proper, and totally with the original design that the Federal Government should collect taxes, taking care to collect them in a way which enables there to be equity between taxpayers, making sure that those funds are available as necessary for State and local governments to discharge their share of the constitutional obligations.

I think the Congress properly can encourage State and local governments to undertake other services of government, beyond those which it wishes to insist upon through legislation and the court. I don't think

it follows at all, however, that the Congress needs to detail all of the programs involved. It is not so, in my judgment, that the States ever lacked the capacity, in aggregate, to do what is now being done. They lack the capacity to distribute that capacity in a fair and equitable way.

So now what we have as a result of these years of experimentation is something which really is not federalism at all but is a centralized government with State governments acting as its agents. I think we can design it better. One of the ingredients should be the recognition of the need to distribute constantly those funds necessary to assure the performance by State and local governments of all their responsibilities.

The plan that the President has proposed, in my judgment, was a good start but it neglected two out of three elements which you have mentioned—the tremendous disparity problem among the States; and the sense of stability, which is required in order to make government work, and which is totally undermined by the notion of a trust fund which has a limited life. So, I would like to urge you and the Members of the Congress to proceed with this matter.

I hope that the White House, the Governors, the county commissioners, and the mayors will come to an agreement because it would make the life of the U.S. Senate and the House of Representatives easier. It would be nice if the Federal Government, as represented by the White House and State governments, could agree and present the Congress with a program and say, "Here it is." I will continue, as chairman of the National Governors' Association, as will my colleagues, to pursue every opportunity for that to happen.

It should not be supposed that, if we fail, federalism is dead. I laugh at the newspaper headlines that suggest that. The Governors and the President don't agree that we can make no progress in the field of proper relationship between the States and the local governments. It cannot be so. If we fail, well then, your burden simply increases immensely, because it is very plain that the continuation of the present system cannot work. It is not strengthening the country. It is not solving the social problems which it was hoped would be solved by this great degree of centralization. It is continuing to erode the time of the Congress which needs to be devoted to national concerns.

I appreciate your giving me a chance to testify on this matter. I should add that your reference to the Justin Morrill Act is a good tie-in for a Vermont Governor testifying in Minnesota. As you know, he was a U.S. Senator from Vermont. Vermonters have always recognized the capacity for both independence of people in their local jurisdiction, and the sense of unity which can tie them together through a properly designed Federal-State relationship. Thank you.

Senator DURENBERGER. Thank you very much, Governor. I appreciate your tying us together. I understand this afternoon you are going to go out to memorialize one of your own ties here at Fort Snelling.

Let me start by asking you a question about something that Art said, about something you said. Art talked about why we are up at the national level so often. We refer principally back to State and local government in terms of two needs—the people have accessibility

and capacity. On the accessibility issue, as I recall his comments, he said that State and local governments were both unwilling and unable to respond to needs. I heard you say that the State and local governments lacked the capacity to distribute the burden or the responsibility in a fair and equitable way. Perhaps you can clarify your statement by way of reaction to Art.

Mr. SNELLING. I think it is a phasing and timing problem. In the first place it is clear that, when the Nation was born, we lived in a relatively uncomplicated circumstance. Ninety-some percent of all the people in this country were living the same way in an agricultural setting. We were really a very homogeneous country. Not much thought had been given to welfare, for example. We were not, in those days, burdened with the task of distributing wealth. Our mission was to create it because there was none. People were excited about and preoccupied with the task of making a living.

As we matured and went through all the evolutionary periods as an industrial society, needs arose which were not contemplated by Hamilton and Madison. Disparities arose which were certainly not contemplated either. I think that what happened was that safety valves within the system operated centrally because no one had thought of a mechanism for collecting money on a national basis, from where it could be taxed without destroying or reducing the regenerative powers of a Nation, and putting the money in the hands of State and local governments with which to do the job. It was assumed that if the Federal Government taxed, the Federal Government must perform.

I thought the distinguished mayor and freshman Senator from Missouri was very, very constructive when he spoke about the trend—that you first asked the States; if they said no, you asked the Congress; if they said no, you asked the President; and if he said no, you asked the courts. So much for balance of power. So much for the circuit breakers with which our system was designed. What he says is that, when the circuit enunciator gave a warning, you simply pulled the circuit breaker to render it inoperative and to bypass all those mechanisms.

I think what has happened is that we now realize it was neither right to ignore valid interests of justice, nor to assume they could only be performed by the Federal Government. So now we know—incidently, I don't think revenue sharing was one of the constructive lessons in American history—that we can have both: nationally defined, minimum standards on local implementation of discretionary programs; and a truly national view of the capacity to do what the Constitution requires.

Senator DURENBERGER. Another of the elements suggested by that, of course—when you talk about unwillingness—has been the traditional way in which State legislators represent all of the often competing economic and social interests and needs of the State. That is, the tradition of part-time policymaking.

To what degree, in your opinion, has that situation changed around in this country so that that part of the unwillingness might not be the barrier it was?

Mr. SNELLING. That is the subtle question. I think Shakespeare was right that "What we do is long remembered." I think people are still

judging the States on the basis of the apportionment of the legislatures of a much earlier time. Truly, it would have been better for us, even then, to have said "Democracy can work only if it is, in fact, a democracy."

The assumption that we govern with the consent of the governed is rendered inoperative if the legislature does not fairly represent the people. So I would say that much of the neglect to which he and others referred was not a neglect of people fully and fairly represented, it was neglect of a system which did not represent the people. Now that has been largely remedied. I would say that, if it has to be further remedied in any particular State, the way is clear to remedy it. The drill ought to first be to make sure that the legislature is truly and fairly representative of the people. If it is not, then seek prompt and immediate course of relief.

Now if the legislature is fully and fairly representative of the people and "does wrong," then one must assume that the proper remedy is to follow due process and elect those who the people believe will do right. Once that has happened—and I believe it has happened in most States in the country—I think one should trust the system. If we act as though the system worked, then much of the debates which we are having about who should do what—as between the Federal and State governments—would not need to be had at all.

At the moment, it is hard for me to understand the notion that a person can be a bad representative of his neighborhood, or his city, or his county; but, somehow or another, if he travels 1,500 miles away as a representative of his entire State, his knowledge, his insight and his sense of justice are remarkably inhanced. It really doesn't make much sense.

Senator DURENBERGER. I'm going to reserve some time for some specific questions on specific portions. I will turn now to Art Naftalin for his questions.

Mr. NAFTALIN. Senator, I just wanted to ask the Governor a question pursuing this matter of representativeness in State legislatures. Granted the one man-one vote principle has established an effective and legitimate relationship between voters and legislatures. What do you do about those interests, however, that do not receive a response at the State level? I'm thinking, for example, of minority groups—minorities seeking some kind of racial justice who turn to the National Government because the National Government was prepared to respond. I am thinking, also, of central cities who often do not receive attention because they don't have strong representation in the State legislature. There are many interests across the country that are essentially minority interests, and yet are vital for the Nation. Who addresses those?

Mr. SNELLING. Senator, first some facts. There is no minority of which I know that is not better and more fully represented, as an aggregate, in the legislatures of the States than in the U.S. Congress. That is simply a fact—that a higher percent of the legislators of the States are minorities of any description than is true in the U.S. Congress. It is pretty hard to say that minorities are better represented in the Congress because that is mathematically not so.

No. 2, who is to define what fair representation is? After you get past the basic mathematics or mathematical representation, you say "Well, I don't like the results." If you are saying, in any given State, the number of members of the legislature who come from "urban areas," we will have to describe urban area because Vermont will not accept Minnesota's definition of urbanity—neither philosophically nor demographically. The fact is that if the proportion of representatives in the legislature coming from communities with a population of less than 2,500, or 25,000 or whatever it is, is right, and you still say that urban interests have not been fairly represented, what you are saying is that the majority reached a conclusion in a way that is compatible with the constitutional protection of a minority but has not come to a conclusion which the minority thinks is important. I would make a raw statement that I have never known a special interest group which thought it was adequately represented in any council.

Let's then now ask ourselves the next question. Do minorities and special interest groups feel properly represented in the U.S. Congress? Hell no. Can you tell me a special interest group that says that it has gotten what it deserves from the U.S. Congress? Immediately prior to this most recent election, what they were saying—all of them—is precisely what they have been saying for the last 50 years. It was that they had not yet reached equity; but if this program were doubled, and if this program were changed in this way, and if that program were changed in that way, then that would be for equity.

So the test cannot be, we cannot say if any special interest group feels it has not been treated correctly, then democracy does not work. Democracy has to work when it's on balance. People feel that the process works, that they have a fair hearing, that those who make a judgment were in possession of the fact, than the final conclusions represent the conclusion of a fairly representative majority, and that it is not incompatible with the constitutional guarantees to minorities.

Mr. NAFTALIN. Governor, if I understood you correctly, you said that income maintenance should be a National Government responsibility.

Mr. SNELLING. No; I hope I didn't say that. I hope I said, and I believe what I said is, the establishment of a national standard for income maintenance, and the assurance of the financial capacity to implement it, is a prime national concern. My view about the mechanism for that is that it is so largely national as compared to, let's say, local, that it would be easier and more practical, straightaway, to make it a direct national responsibility. I believe the Federal Government should assure that the basic needs of individuals will be met, by direct payment to the citizens of the country or to surrogates—perhaps States.

Now I don't think that they have to do it directly. For example, medicaid could be fully undertaken by the Federal Government as a responsibility; but the program could be administered by State governments, or perhaps by State governments having delegated parts of it to counties or local governments provided that there was no impact upon local tax burdens for the cost consequences of that.

Mr. NAFTALIN. It was precisely your assertion that I wanted to ask you about—to relate your basic position on medicaid, AFDC, food stamps, and other categorical programs that affect the income level of

people. Could you be a little more specific about how you would organize this so that the States would have a place in the national program?

Mr. SNELLING. Yes; first the Federal Government could undertake the responsibility for medicaid, and should totally. But medicaid should then be described in terms which were reasonable and by which one might possibly use the term "minimal." They should be reasonable but allow room for discretion and for differences in local standards. There should be a basic Federal level of medicaid for which the financial responsibility should be the Federal Government with implementation, preferably, by the State.

In my opinion, the next step—the food stamps and AFDC—ought to be brought out, in the long terms, over the longer range as being closely associated. In terms of getting from where we are to where we want to go—certainly if the Federal Government were to retain responsibility for food stamps and to assure the capacity of the States to offer reasonable levels of support through AFDC—that is a compromise between the diversion of views of who should be totally responsible if the States were to administer and pay. If there was some assurance that no State would have to impoverish itself in order to provide a reasonable level of AFDC, then I think you could work out a reasonable discharge of responsibilities.

With respect to the hundreds of categorical grants—or the 40 or 50 which are the largest—I think here again we must recognize the difference between the time in which the Federalist Papers were written and the present day. I don't think you can really say that adequate transportation in Minnesota is not a matter of concern to a Vermonter. I know you can't say that the adequacy of education in Vermont, or in Minnesota, is not a reasonable concern of interest to those of us in other States.

So, here again, I think it is appropriate for the Federal Government to establish some goals and some standards. There is no need whatsoever for them to design and implement programs. That can be done by the States—which is what makes the turnback portion of the Federalism proposal before the Nation so interesting—provided that there is some permanent process, such as trust funds as Senator Durenberger has suggested or possibly others, which will guarantee that, in the discharge of those obligations, you will not have a great disparity among the tax burdens of the people of the separate States.

Mr. NAFTALIN. One quick question about medicaid. You know, Governor, the States have a series of options. For example, in Minnesota we have elected to provide a number of them. Would you eliminate options and go to some kind of national uniformity, or would you continue to permit the States to vary the benefits they provide?

Mr. SNELLING. No.

Mr. NAFTALIN. And, if you do, would you then condition Federal financing to the options?

Mr. SNELLING. I would never do away with options. I might tell you that no Vermonter would do away with options. Options is the stuff of which I think this country's strength is built. The notion of options is not at all incompatible with a national sense of justice. I think that you could say no American should find himself at or below this particular level. That is a Federal responsibility and commitment.

Now the standard might be higher in one State. The people should have a right to tax themselves and add to that standard. Vermont happens to have a very high standard; people put out statistics and show us how high it is. Most Vermonters will say, "Yes, we know that and we think that is right and fair." I think we ought to encourage that. That also, of course, means that mistakes will be made. Some States will do less than is in their own interests and they will pay the price. Some States will do more than they can afford and find that they have paid the price. All of this, in my opinion, is a necessary part of the evolution of a free society, provided that you have never ever placed in danger the fundamental constitutional rights of the people of the country.

Senator DURENBERGER. Governor, does the National Governors' Association have in hand a specific proposal on the federalization of medicaid? Clearly, I have gone back and forth on this one an awful lot as chairman of the Health Subcommittee. I am continually perplexed about how we might accomplish this, having observed that the States are much better at affecting both utilization and financing decisions. You constantly say we ought to federalize it. Of course, the question gets to be, "Is there a good way to do it?" Could we, in effect, provide each State with an insurance policy? That is, "Here is a set of benefits for which we are willing to pay. You take this policy and you either buy it, or some other form. You are entitled to it. You can add to it whatever other set of options—benefits—you may want to prescribe," or, another way comparable to that is we could block grant x number of dollars to the States and say, "You can only use it for subsidizing health care."

Mr. SNELLING. Well, we do have some ideas. I might tell you that I think a block grant for medicaid would be totally unacceptable. That is the exact opposite of the Federal Government undertaking responsibility. Furthermore, as you know, Senator, the history of block grants is that when the Congress is under pressure, it simply accesses the block grants. Bear in mind the present budgetary discomfort has been felt more by the people who are the beneficiaries of State and local governments than by other aspects of government.

Senator DURENBERGER. Well, we are going to do the same thing to you again this year by copayments, deductibles, limitations and reimbursements——

Mr. SNELLING. You are?

Senator DURENBERGER. Of course, we are. That is the President's proposal and the Democratic response. That has been kind of the consensus on the part of everyone other than the Governors.

Mr. SNELLING. And the U.S. House of Representatives. Before that drama is played out, we will see the full benefits of the two party system, and what will emerge is what no one in any one group wanted.

In answer to your question, the Governors do have some definite plans for the federalization of medicaid, or the assumption by the Federal Government of full responsibility. However, without attempting to be coy, the President of the United States delivered to the U.S. Congress a proposal. He started off with the proposal that the Federal Government undertake the full responsibility of medicaid. Since what is going on now has been labeled negotiations, it simply would not be

appropriate or tactically sound for the Governors to say, "Well, here is what we have in mind." The President has offered a full federalization to medicaid, so I think it is appropriate for the President to say what he has in mind.

We have been told that the avoided cost to the States would be $19.2 billion. I want to see how an avoided cost of $19.2 billion to the States can be provided because, clearly, the last and very important part of the President's offer was that there be no winners and no losers among the States. In order for that to work out so every Governor can say to his State legislature, "The program is fair and the people of this State will not suffer," we must enhance the sense of justice and stability without simply handing off burdens to the State.

Senator DURENBERGER. I have been told we are running out of time, but I do have to ask you one more question which Art started into with his question. It gets into the relationship between food stamps and AFDC.

My impression is the food stamp program is one of our better programs despite what those recognized labels on the water bottles may say about it. The problem is with the White House notion of the federalized food stamp program to dump back AFDC. It seems that, in States like Minnesota where AFDC is high, the food stamp program is small and, in other States, you have the reverse. If we turn AFDC back to the States, rather than your suggestion, and keep food stamps as a Federal program, what are we going to be able to do for States like Vermont and Minnesota who, in effect, get punished by having high support levels under the AFDC?

Mr. SNELLING. The goal has to be to have a comprehensive view of how you meet people's needs. As you pointed out, it would be nonsensical to say there are two parts to what you do for a given population at risk. One of them is AFDC, which is totally a State responsibility, and the other is food stamps. As you are more generous with AFDC, the amount of eligibility for food stamps goes down. That is exactly the opposite of what one ought to do if one wants to encourage State and local governments to fully undertake their responsibilities. So, part of the negotiations should be to insure that no State will be disadvantaged because it sees its responsibilities in a larger sense rather than in a more narrow sense.

Senator DURENBERGER. Thank you very much for your testimony.

[Governor Snelling's prepared statement on the "Fiscal Year 1982 Budget and Federalism Proposals: Impact on the States." given before the House Committee on the Budget, March 11, 1982, follows:]

PREPARED STATEMENT OF RICHARD A. SNELLING ON THE "FISCAL YEAR 1983 BUDGET AND FEDERALISM PROPOSALS: IMPACT ON THE STATES," BEFORE THE HOUSE COMMITTEE ON THE BUDGET, MARCH 11, 1982

Representative Jones and Members of the Committee: My name is Richard A. Snelling, and I am the Governor of Vermont. I am currently serving as Chairman of the National Governors' Association and am here as a representative of NGA today. Accompanying me is Governor Scott Matheson of Utah, who will succeed me as chairman of NGA. In our testimony, I will concentrate on the President's federalism initiative, and Governor Matheson will cover the effect of the fiscal year 1983 budget on the states. The two are interrelated, however, and our testimony will, I hope, make that point.

Before proceeding with that general division of labor, I would like to make a few comments designed to place the statements we are delivering to you today in a common framework.

The importance of the decisions which this Congress will be making in the weeks ahead may very well be unparalleled in the modern history of this nation. Seldom before has a sense of perspective been so essential to the likelihood of a satisfactory outcome.

President Ronald Reagan has correctly identified three tasks which the nation must promptly address. These are:

1. To restore the nation's economic health;
2. To rebuild our defenses; and
3. To recapture that fundamental sense, upon which all other strengths depend, that our government is "of the people."

Each of the three urgent national agendas is separately an essential goal. But they are also interrelated.

A strong defense cannot be obtained by the purchase of arms at a rate that endangers the economy. It is the economy which must support the capacity for defense.

Neither a strong economy nor a strong defense can be achieved unless the public has confidence in the competence and fairness of the government.

Since President Reagan's election, his proposals have determined the shape and substance of the national debate. We have, quite properly, put aside decisions on how fast tax rates can increase, and instead we are debating how fast they should decrease. We are no longer allowing defense spending to become a dwindling portion of the budget; we are considering how fast it should grow to afford the requisite security. And, for the first time in half a century, the nation is discussing how to return greater responsibility to state and local governments.

The President cannot be faulted for demanding that those who object to the legislation he submits accept the challenge of offering thoughtful substitutes. And given the urgency of addressing the capacity of the economy, the adequacy of the defense and the restoration of the federal system, he is entitled to make his own programs strong and pointed in order to assure that the outcome will be far more in the direction he proposes than in any other direction.

It is the duty of the nation to pick up the President's charge and phrase a response in harmony with a national sense of what will be worthy to endure. Mr. Chairman, you are leading the way in this endeavor, and I want you to know that the Governors are prepared to work with you in any way you would find helpful.

FEDERALISM REFORM

Let me turn now to federalism, with the understanding that Governor Matheson will speak in detail to the budget issues. Before describing the specific action taken by the Governors at our winter meeting last month, Mr. Chairman, I believe it would be helpful to discuss for a moment why we feel that progress on intergovernmental reform is urgently needed. Although the grant-in-aid system has certainly done much to alleviate poverty in this country, to strengthen the nation's capital infrastructure, and to advance social goals, all the evidence now points to the need to re-examine the intergovernmental partnership. An eleven volume study recently published by the Advisory Commission on Intergovernmental Relations concluded that the federal system is over-burdened. Indeed, we all know that it is. With our hands tied by 500 separate categorical programs, and their attendant regulations, over 1,000 separate mandates on state and local government, and a paperwork burden estimated to cost $5 billion in 1977. We are not surprised that many Americans simultaneously believe that government is not meeting their needs and that it costs too much.

Mr. Chairman, when the federal government requires an advisory committee on sudden infant death in Vermont, where the number of babies affected is the same as the mandated size of the committee, it is no wonder that citizens are skeptical of government bureaucracy. (Incidentally, the committee must meet six times a year.)

And just after I was told by a member of my administration that in order to qualify for federal assistance in the area of juvenile justice, federal regulations require me to appoint adjudicated juvenile offenders to a statewide commission.

When federal rules require companies discharging pollution into a dry river bed to receive the same permit required of firms discharging into navigable streams, it is no wonder that businessmen say that government regulators don't know what they are doing.

When a mayor of a town of less than 5,000 people has to travel to Washington to discuss a drinking water problem affecting one household, it is no wonder that scholars conclude that the federal system is overburdened.

Governor George Busbee described the confusion of roles and responsibilities in the current intergovernmental system as follows: It is "difficult to imagine an issue too local or parochial to avoid the attention of Washington policymakers. Pot-hole repair, firefighting, garbage disposal, building codes, have all been the subject of solemn deliberations on the Potomac . . . to a point where the Congressional Record sometimes bears an uncanny resemblance to the minutes of a county commission meeting."

The intergovernmental system worked adequately when the accepted answer to any problem that couldn't be addressed under existing grants was to create a new program to take care of it. But if the President's projections are accepted by Congress, aid to states and local governments will drop from 15.9 percent of the federal budget in 1980 to 9.6 percent in 1985. Spending on education, training, employment, and social services will drop 20 percent. The block grant programs, which support such important activities as maternal and child health, rehabilitation, alcohol and drug abuse, and child welfare, will be cut 15.7 percent, on top of the 13.2 percent cut last year. Governor Matheson will treat these issues in more detail in a moment.

I do want to say that the fiscal 1983 cuts put the success of the whole federalism program in jeopardy. We will be telling the public that under new federalism, government will work better and yet in order to prove the point, we would begin fiscal year 1984 in a $16 billion hole. That is a prospect that makes even an optimist like me pessimistic.

Mr. Chairman, citizens are complaining that government does not deliver for them now. In the judgment of the Governors, the cuts proposed by the Administration go deeper than the fat in the grants system. It is for this reason that we have called for level funding of discretionary grant programs in fiscal year 1983.

Clearly, just holding grants harmless from budget cuts would not be enough to permit them to solve the problems they were designed to address or to regain the confidence of citizens who believe the government cannot help them. Too many of these programs were crafted without adequate regard to meeting specific state problems and to fixing accountability. It is these flaws which have created the disaffection of citizens from their government, and it is these flaws which the President's bold federalism initiative seeks to address.

Mr. Chairman, we agree that the economy is the major domestic issue that Congress must tackle this session. But as I have pointed out, the important problems addressed by intergovernmental grants cannot be neglected. These problems will not be met by withered federal programs . . . programs starved for funds and flexibility . . . programs burdened by regulations designed for an era of growing appropriations and unsophisticated state and local governments. That is why we believe that the President's federalism initiative deserves immediate and serious consideration by Congress.

In view of the urgency with which the Governors view the intergovernmental situation, we welcome the priority that the President has placed on the issue by speaking about it so extensively in his State of the Union address. By his action, the President has elevated federalism reform to a topic of national debate; a matter worthy of discussion by this Committee, by the Speaker of the House of Representatives, and by the Majority Leader of the Senate.

NGA policy sets forth many federalism principles and guidelines that are compatible with the President's federalism initative. We are in full accord with his proposal for federal assumption of Medicaid. We also welcome his far reaching suggestion that a range of categorical programs be transferred to state responsibility. And we believe, as does the President, that a mechanism for financial transition is essential. For the record of these hearings, I am providing an analysis prepared by the NGA and NCSL staff which has been used by the Governors in their work on the President's federalism plan.

The President's federalism proposals contain some elements that are not consistent with existing policy positions of the National Governors' Association, such as assigning responsibilities for food stamps and AFDC to the states. However, we feel these differences can either be reconciled by negotiation or temporarily set aside as we build a program based on existing areas of mutual agreement.

To this end, NGA and the White House have begun negotiations on the federalism legislation to be submitted to Congress. Joining me on the negotiating team appointed by NGA are Governor Alexander, Governor Babbitt, Governor Busbee, Governor Matheson, and Governor Thompson. The White House coordinating group consists of Mr. Baker, Mr. Meese, Mr. Stockman, Mr. Williamson, and Mr. Harper.

In preparation for these negotiations, the Governors worked at the winter meeting to identify areas of consensus and to develop a federalism initiative premised on the areas of agreement. Governor Matheson had a lead role in crafting this compromise. Our proposal is as follows:

1. The federal government would assume full responsibility for Medicaid. The exact savings to the states would depend upon the fiscal year 1983 appropriations levels and the services actually assumed by the federal government.

2. The AFDC-food stamp portion of the original proposal would be deferred for further negotiations. The states will continue discussions on the details of a later proposal for AFDC and food stamps.

3. The states would take over some negotiated set of federal categorical programs (excluding transportation programs). Decisions on programs returned to the states will be made in a spirit of partnership and cooperation with local governments.

4. During the first year, states would be required to fund all programs at the previous year's level. Over the next three years, states could redirect each year one-third of the total funds for assumed programs to any purpose. By fiscal year 1987, the states would have full discretion over the use of the funds.

5. The transportation programs and the highway trust fund would be dealt with separately, to recognize the unique relationship that has existed between user fees (e.g. the motor fuels tax) and transportation initiatives and the desirability of separating human capital and physical capital programs.

6. Because the cost to the states of the returned programs is in excess of the federal government's estimated cost to assume Medicaid programs, a trust fund would be created at the level of the swap difference. The thrust fund would not increase in size, and would be funded from many federal revenue sources.

7. During fiscal year 1984, distribution of the trust fund would be based on historical expenditure levels to hold states harmless. In fiscal year 1985, 20 percent of the fund could be distributed according to the fiscal capacity of the states; in fiscal year 1986, 40 percent; in fiscal year 1987, 60 percent; in fiscal year 1988, 80 percent; and in fiscal year 1989, 100 percent could be distributed based upon fiscal capacity. This framework is similar to the proposal made by Senator Durenberger, who has taken a very throughtful approach to a federalism reform.

8. In fiscal year 1989, the President and Congress would re-evaluate the total amount required for the trust fund and determine the most efficient manner to allow the states to retain the appropriate revenue base for returned services.

Mr. Chairman, this last point is an important one. We shouldn't start down the program turnback and trust fund phaseout road without considering where it ends. We are not a nation of separate, self-sufficient states. I don't believe the founding fathers saw it that way and certainly no thoughtful person would see our nation that way today. We are enormously impacted as states by national policy, our own historical development, interstate migration, and the luck of the draw as to where natural resources in current demand are located.

Mr. Chairman, it is not conceivable to me that the end of this federalism road is the turnback of responsibility for the domestic affairs of this nation with the resources to pay for them left to the 50 states alone to work out for themselves.

Just as the President, with his Medicaid proposal, has moved in our direction, we have moved in his:

First, we have agreed to take over a substantial portion of the grant-in-aid system without guarantees of permanent funding. The President proposed a $30 billion swap. We have accepted his proposal.

Second, we have accepted the concept of a trust fund that does not increase in size. This position would have been unthinkable before this year.

Third, we have agreed to discuss an issue which arises in Congress whenever reauthorization of major programs is debated on the floor. I refer here, of course, to the formulas through which federal funds are distributed to the states. As you know, this is a divisive issue. However, many students of federalism agree that restructuring of the system cannot take place without review of the current distribution of funds. Our proposal addresses this issue.

Finally, we have agreed to defer for further negotiations the AFDC-food stamps portion of the original proposal. There is a strong consensus on the historic NGA policy position that income security is a federal responsibility. This policy was reaffirmed by the Governors last month. State assumption of food

stamps—now a fully federally-funded initiative—and AFDC is antithetical to this policy. But we have agreed to continued discussions on AFDC and food stamps.

Mr. Chairman, the Governors have entered into immediate discussions with the Administration and Congress concerning the area of agreement and the subject left open in our proposal. Our goal is to keep the federalism issue before the American people and to work with the President and the Congress at every opportunity to restore balance to our system of government.

Mr. Chairman, this Committee is in a unique position to reflect, through its discussion of functional spending levels for fiscal year 1984, the commitment of Congress to address the current imbalance in the federal system. We hope your work will reflect support for enactment of federalism legislation that will permit Congress to focus on truly national concerns, that will untie the hands of state and local officials to deliver services they are best equipped to handle, and that will restore citizens' faith in their government.

Senator DURENBERGER. Would you like to join us over here on this side of the table?

The remainder of this day we will hear the witnesses in panels of three and four. Our one and only panel this morning is composed of representatives of local government in Minnesota. The witnesses will be Jeff Spartz, Hennepin County commissioner; Bruce Nawrocki, mayor of Columbia Heights; Charlie Weaver, chairman of the Metropolitian Council; and Don Slater, executive director, League of Minnesota Cities. Gentlemen, if you will all come forward and join us at the witness table.

While you are doing that I might give you a suggestion before we begin. To make sure that we have time for everyone for questions, we are going to hold you to 7 minutes for your statements. The chief clerk has instructed me that you will have 1 minute remaining when you see the yellow card, and your time is up when you see the red card.

I want to thank you all very much for being here.

We may as well start with Jeff Spartz, who is representing the Minnesota Association of Counties. Mr. Spartz was elected to his current office in 1977. He started the county intergovernmental committee of which he is currently cochair. He is a member of the Association of Minnesota Counties and serves on the New Federalism task force organized by the National Association of Counties. In February, shortly after the President's State of the Union message, Mr. Spartz was invited to the White House to meet with the President on the New Federalism issue. Outside of that, he was born in St. Cloud, Minn., right near where I grew up. He is a graduate of the University of Minnesota where I once spent some time. With all the Ivy Leaguers we have here today, it is important to make these small comments.

TESTIMONY OF JEFF SPARTZ, COUNTY COMMISSIONER, HENNEPIN COUNTY, MINN.; BRUCE NAWROCKI, MAYOR, COLUMBIA HEIGHTS, MINN.; CHARLES WEAVER, CHAIRMAN, METROPOLITAN COUNCIL, TWIN CITIES, MINN.; AND DON SLATER, EXECUTIVE DIRECTOR, LEAGUE OF MINNESOTA CITIES, ST. PAUL, MINN.

Mr. SPARTZ. Thank you, Mr. Chairman, Governor Snelling, and Mr. Mayor.

I would like to say, before I give my testimony that I was real surprised to be sitting in the audience listening to this articulate and per-

sonable Governor from Vermont making remarks with which I basically agree. Suddenly, I got this feeling that I should vote for this guy, but I prayed a little bit and the feeling passed.

So I am speaking on behalf of the Association of Minnesota Counties (AMC) today. I would like to do three things: Explain our position on the President's New Federalism proposals, comment on the medicaid program, and then comment on the AFDC program.

If we define the New Federalism as a transfer to State and local governments of both program authority and responsibility and appropriate financial resources, Minnesota counties would support this philosophy. The problem, of course, occurs in the delineation of how much authority, which responsibilities, and what appropriate financial resources are to be transferred.

Minnesota county officials believe that the Federal Government should continue to bear the major financial responsibility for the basic health care of the poor, and a similar responsibility for insuring a minimum standard of living for children, elderly, and incapacitated. There are several reasons for this philosophical statement. One, economic and national employment policies markedly affect the demand for income support services. These policies are controlled by the Federal Government, and the State and local governments have little influence. Two, both the National and State governments have a variety of taxing resources available and have the steadiness of a broad tax base. Three, health care and minimum income support are fundamental and widely supported policies of the United States. Thus, they require a broader policy perspective than single counties or States can offer.

As a practical and pragmatic comment on the statistics provided by OMB regarding the swap, AMC believes the costs to the States are understated. Comparing the costs of medicaid, AFDC, and food stamps as these programs now exist and projecting ahead to fiscal year 1984, the Congressional Budget Office statistics indicate that medicaid costs will be $19.1 billion while the other two program costs will be $20.6 billion. We concur with this analysis. We recommend, therefore, that the Federal Government continue to be responsible for the medicaid and the AFDC programs. We would support cashing out the food stamp program if sufficient attention is given to the income support programs.

AMC believes that a different situation exists in President Reagan's transfer or turnback proposals. We believe that the design of these programs varies appropriately from locale to locale and is largely determined by factors such as cultural behaviors, geography, population density, available facilities and professional resources. AMC recommends that this transfer be implemented with the provisions that adequate Federal resources accompany the turnback; that there is a guarantee of a pass-through to the local delivery system; that required administrative costs, regulations, and reporting requirements are minimal; and that a reasonable percentage of the Federal individual and corporate income tax receipts be allocated to each State. Counties do not support the President's proposal of turning back excise taxing power which obviously impacts States in widely differing ways.

Our position on the New Federalism is influenced by our experience with the State of Minnesota. In effect, Minnesota can be viewed as an experiment, particularly in the State's relationship with its counties in providing human services. Over the past few years county governments, in concert with many State officials, have been working hard to adopt and implement these precise concepts in Minnesota. We believe it is working well.

In 1973, a swap and transfer approach began in Minnesota, culminating in 1979. The State legislature adopted policies which made the State the primary public body responsible for the income support and health care of the poor. The State took over this responsibility from the counties so that there could be: Program equity statewide; a fulfillment of the concept that the State and Federal Government are best able and most appropriate to address the basic needs of the poor; and property tax relief.

At the same time, the State began to turnback to the counties specific health and social service categorical programs. The categoricals are now State block grants to county boards with a local match requirement. The block grant principles are: Funds distribution based on a needs formula; significant local program and administrative discretion; State establishment of program standards; and predictable State financial support.

Minnesota's approach is unique and although local control critics abound, the success of this approach has been heralded by many.

Summary of general recommendations: The Federal Government should be responsible for medicaid and AFDC. The Federal Government should transfer to the States and counties grants as proposed with an appropriate percent of the individual and corporate income receipts. Allocations should be based on need as measured by multiple factors. The local property tax should not be considered a major revenue source and current property tax burdens should not be increased. Funding mechanisms should provide maximum flexibility so that resources may be allocated to meet locally determined needs. Prior to implementing major changes, sufficient lead time must be provided for adequate planning and a smooth transition. States and counties should not suffer financial losses during any transition—this includes effects of a medicaid takeover on States such as Minnesota.

Minnesota has adopted a medicaid with a number of the optional programs. We are quite concerned that, if there is a Federal takeover, a number of these programs are going to disappear in the process. We are greatly concerned about the issue. We think a lot of negotiation and compromise has to be involved.

Now in the area of AFDC—you cut me off. Do I really only have 7 minutes, Senator?

Senator DURENBERGER. Well, your entire statement, which goes on for 3 more pages, will be made a part of the record.

Mr. SPARTZ. Well, I was speeding up.

Senator DURENBERGER. Thank you very much.

Our next witness will be Hon. Bruce Nawrocki, the mayor of Columbia Heights, Minn.

Mr. NAWROCKI. Thank you, Senator. You had my hopes up for a little while, earlier in the program, when you were handing out honor-

ary Senatorships for the day. Since high school days, Charlie Weaver—when he was a star for the Anoka Tornadoes and I was "Benchwarmer Bruce" on the Columbia Heights Highliners—has been kind of lording it over me. I thought, by golly, for a day maybe we would be equal.

My name is Bruce Nawrocki. It is my privilege to serve as mayor of the city of Columbia Heights. Columbia Heights is an older, first ring suburb in the Twin City metropolitan area with approximately 20,000 good citizens.

During my 21 years as a local elected official, I have had the experience of working on the variety of problems that local governments face, both with and without Federal assistance. I have been a member of our Metropolitan Transit Commission for most of the years of its existence. We operate one of the largest public transit bus systems in the country. I have been a municipal representative on the 3–C transportation planning program in our Twin Cities area for several years, and I currently chair the waste management advisory committee to our Metropolitan Council.

I feel that the subject matter of "New Federalism" is extremely important to every citizen in this country.

I want to thank you, Senator Durenberger, for this opportunity to present comments on the "New Federalism" to your Senate Subcommittee on Intergovernmental Relations. I want to thank you particularly for giving us this opportunity to be heard on our home ground. So often, it seems the feelings of local governments are taken to be the views expressed by national organizations in Washington, such as the U.S. Conference of Mayors or the National League of Cities—organizations in which the majority of local government officials have no voice, or possibly only limited opportunity for participation at the policymaking levels of those organizations. A hallmark of your record of service as a public official has always been your willingness to hear from, and work with, those impacted by decisions that you must make as a public official.

It seems that much of the discussion on "federalism" has centered on whether it represents President Reagan's attempt to carry out his alleged mandate from the electorate of this country to "get the Government off the backs of the people," or whether it represents his efforts to turnback what others consider to have been "desirable progress as having been made in this country, these past years, by involving the Federal Government and its resources in a broad range of programs, reaching into the daily lives of the citizens of our country in many different areas of activity."

I, for one, feel this Federal involvement of these past years has been a mixed blessing. In Columbia Heights, we have been the beneficiaries of much good from various Federal programs. Very desirable accomplishments have been made which, plain and simply, would not have been possible without Federal help. On the other side of the coin, we have likewise experienced some programs being less effective than they might have been because of various Federal rules and regulations.

Federal dollars have been crucial to our rebuilding of the public transit system in our metropolitan area. On the other side of this coin, I have seen the costly folly of Federal bureaucrats trying to design buses, and the adverse cost impacts of a host of Federal rules and reg-

ulations interfering with our efforts to run a local system as efficiently as we think we can.

I would hope that political rhetoric and the very serious fiscal problems facing our country do not combine to cause us to lose what is desirable in Federal programs in our efforts to clean up what is undesirable—that we do not throw out the baby with the bathwater.

I like what I think that you, Senator Durenberger, have been saying about the subject of "New Federalism." I hear you saying that we should get past the political rhetoric of the subject. We should spend some time to review and analyze the various governmental services and resources, and how each level of government might most effectively and fairly be involved with providing those services and resources which are determined to be desired for the citizens of our country whom we are mutually trying to serve. In particular, Senator Durenberger, I was very much impressed, and in basic agreement, with the "Basic Principles for a New Federalism," and the very constructive changes that you proposed as an alternative to the President's New Federalism initiatives, contained in your letter of February 4, 1982, to the President.[1]

I believe that your "Basic Principles for a New Federalism" are worth repeating. Federal assistance to State and local governments should be provided through general purpose resource return programs rather than categorical grants. The Federal Government should guarantee the income security of all Americans which includes economic access to a range of services that provide a minimum standard of living. To the extent that income security programs are administered by State and local governments, the Federal Government should provide resources adequate to fulfill this responsibility, and should require a minimum standard of support based on individual need rather than aggregate spending levels.

In providing general purpose fiscal assistance to State and local governments, the Federal Government should seek to equalize the fiscal capacity of places. As a corollary to principles two and three, the Federal Government should establish a permanent program of general purpose fiscal assistance to State and local governments financed by dedicating a percentage of the Federal income tax to the New Federalism trust fund.

Transition from the current system of categorical grants to general purpose fiscal assistance should assure adequate time and resources for State and local governments to adjust their program and tax systems to the principles of the New Federalism. State governments as partners in a New Federalism should make a commitment to more tax and program autonomy for local governments.

I would like to see your "Alternative Proposal for a New Federalism" fleshed out to include a more definite proposal for the relationship between the Federal Government and the Nation's cities. Before cities can be expected to buy into "New Federalism," we must see that the process will not simply be one of State bureaucracy, rules and regulations being substituted, or added to, Federal bureaucracy, rules and regulations.

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[1] See p. 117.

General Revenue Sharing is a program which I believe can well serve as a model for a working Federal-cities relationship. The Federal Government does what it does best in this relationship—collect taxes. Determining and prioritizing local needs and administering the program to meet those needs is carried out where it can best be done—at the local level. There is a minimum of bureaucracy, rules and regulations involved by the Federal Government in this program to muddy the waters and lessen the usefulness of the program.

We have used General Revenue Sharing dollars very beneficially in the city of Columbia Heights. We have also used EDA, CDBG, Housing, and Open Space money. While we are using CDBG money beneficially in our community, I believe that the same dollars could have been used even more beneficially if we did not have to tailor our program to comply with Federal program dictates. I could cite similar experiences in the use of transit and transportation program funds. In the interest of time, I will not do so at this time.

I would be happy to respond to questions. I once again thank you, Senator Durenberger, for your efforts to seek input on this most important subject. Thank you.

Senator DURENBERGER. Thank you very much, I appreciate your comments.

The next witness will be Chuck Weaver, chairman of the Metropolitan Twin Cities Council. Mr. Weaver was in Washington on Monday testifying on behalf of another program and is always working to solve the problems of categorical grants.

Chuck, I appreciate your coming back today.

Mr. WEAVER. Mr. Chairman, it is certainly a great pleasure for me to be here with Governor Snelling and Mayor Naftalin. When I was in Washington there were two lights, a red one and a yellow one. When the red light went off, I thought that meant that the tape recorder had stopped. So you do have to learn the rules.

I had the opportunity to speak on several occasions on the New Federalism. It is a very, very complex question. So far, I think the most frustrating part of it is the upcoming election year. I doubt very seriously if there will be any progress of any meaningful amount during the campaign because it is a difficult thing for people to grasp, and it is very difficult to define.

I have given you, Senator Durenberger, a letter. We have done some work with the Metropolitan Council outlining our feelings on New Federalism. Hopefully it will be of value to you. I would like to mention some of my concerns beyond that.

We believe that the purpose of the Metropolitan Council is very much like the goals to be achieved in New Federalism. We feel our responsibility is in the more equitable and more economical delivery of services using the most physical and human resources possible at a maximum amount of benefit. We feel that is one of the charges of the Council. I think what people have said in the New Federalism doctrine is, in fact, what we have been doing and are able to do—that is, plan statewide in our original bases, which is really from region 5 in the Federal level. The Federal level has been dictating what we should be doing in the metropolitan area in the State of Minnesota, and every

other area, by reason of categorical grants which they pass out from the Federal Government.

So they really have bypassed the structure that we have, which is excellent in the State of Minnesota. We have become the region 5 in implementing what they have attempted to do in their regional administration of the Federal program. That is not the way the folks want things done. That was apparent in the election. Now they are saying, "Look, we don't want that done in region 5. We want that done locally."

The real danger to me is the simplistic idea that somehow you are going to go from Federal determination of what programs should be, to the individual local unit of government funding and determining what those programs can be. It is obvious to me—and I am sure it is obvious to all of you gentlemen—that every local unit of government cannot divide all the services and all the programs—certainly, either deliver them, or implement them, or provide funding for them. That seems to me to be a great dilemma.

Obviously, the first thing that needs to be done is that the Federal Government needs to make a determination of just what the Federal priorities are. We have heard a lot about income maintenance. Perhaps that is where the Federal priorities are—the funding and determination of what should be income maintenance. There is no clear definition of that. We have heard medicaid, AFDC, and food stamps. Perhaps medicaid was chosen as a Federal program because philosophically it was the program to be chosen. I guess I feel it was probably a good swap for the two other programs which were given back to the States financially. I am really not satisfied that there has been a philosophical determination of just what was understood to be the Federal responsibility. It seems to me that is terribly important.

First, let me comment on a couple of your proposals which I think are absolutely essential. Obviously, we cannot provide all of the funding for services which are going to be swapped and shared between the Federal Government and the State governments, unless we do it on a fiscal capacity basis. The key to any delivery of service is fiscal capacity. You can't give a responsibility to a State or a local community within that State unless that State, county, region or local community has the fiscal capacity to render that service. So, obviously, there has to be a determination in the local efforts or definitions, which have been used by the Feds in the past, in fact, to provide more money to the States. We have got to get back to a determination of what fiscal capacity is. I think there has to be a retention of a permanent trust fund. Obviously, as you have pointed out so well, the tax sources are not going to be there for this program if we just shift the Federal laws which are now used to raise the money, to the State or local governments.

The State is going to have to set priorities. It is a very difficult job because, as I indicated before, priorities were already being set through the categorial programs. It was the State's responsibility to determine what standards, under which of those grants, should be made. Now concerning the block grants, it is implicit that the State must set priorities and make a determination on their own of what is necessary in their State. What are the No. 1 risks? If you get $100 million now,

what number of areas are you going to divide that into and what priorities are going to be established in the State?

I guess my concern as a regional government official is certainly never before in my lifetime has it been more important to use the program that we have in effect right now. It seems to me it is absolutely unthinkable that 190 communities, for example, in the metropolitan area of Minneapolis and St. Paul would each submit applications to the State of Minnesota for a particular type of project without having something against which to base those programs. We have developed—and I think they are second to none, anywhere in the country—and made a determination on all of the areas. We have a comprehensive plan for each of the metropolitan areas. If somebody makes an application, we have something to base that application against.

Let me give you one example. A couple of years ago we had a large number of applications for elderly housing. Every one of those applications was very, very good. They were financially feasible. They met all the Federal criteria and all the State criteria, but obviously they could not be funded. So our role in that one exercise was to say, "OK, you have 100 applications that are very good, but how are these bids reaching the overall scheme? How do they fit into that community's provision of large families? How does the sewer capacity work out? How is the traffic system; what affect does it have on the road system?" These are the things that are necessary to look at when you are going to go to a system that is administered by the State. I think it is absolutely essential, and I am very concerned about that. I think that the idea, is perhaps, rather than more coordination we are going to have less. This will just throw the ball game open to total disaster.

One comment. A gentleman made the statement from UMD, on Monday, that refers to our reviews. He said, "Well, we know it works well in Minnesota. Everything works well in the metropolitan area, but you are different. If you can't do it, nobody else can do it I guess." Well, I guess sometimes I would like to have us be used as an example rather than the exception. I think if somebody looks closely at what has happened here, they will find it does work and can work other places.

Senator DURENBERGER. Thank you for your comments and, in particular, for your testimony.

Our final witness will be Don Slater, executive director, Minnesota League of Cities. Before that he was director of Federal relations of the National League of Cities in Washington, D.C. He is a native of Oklahoma. For 5 years in his career he was director of community development in Norfolk, Va.

Mr. SLATER. Thank you Senator. I appreciate the opportunity to be here with you today. I wish to convey to you my thanks from the Minnesota city officials who have the pleasure of working with you and your staff. There are a number of questions which concern us. We are glad to have the open door access with which you provided us. We are also grateful to Governor Snelling for his leadership in the intense negotiations which he worked on at national levels, with respect to this very significant proposal. And, of course, we have our continuing gratitude to Mayor Naftalin, who has provided us with great leadership

in the Greater Minneapolis area, and who is a very imminent and distinguished professor both here and across the country.

As you indicated, in my background I am a little bit more technical than some of the other folks who are here this morning. I want to make some technical comments, if I may, about the proposal before you, and some notations which I don't think have been completely put to you at this time.

First of all, we were very concerned, when the original proposal was announced, about the composition of the trust fund. We wondered how it would work, how it would be composed, and how the moneys were pulled back and forth, and about the holding of the States harmless—that is, everyone would have the same amount.

As I recall, the first tabulary compilation you reviewed with us showed Minnesota having received something like $200 million or $300 million which needed to be reallocated to other programs. This had been caused because of a surplus we had received from the swap. You would make up the deficit that would have occurred by taking away moneys from a categorical or other programs which had been proposed.

That concerns me. How would we go about analyzing that situation? How would we get those programs back to where they should be going through the complete legislative process? How would we deal with very complex programs which have their own funding channels? How would we make decisions about what programs should be at what levels, and whether or not those, in fact, got to chasing other priorities before they got through? So, there are problems there: How the swap works; the kind of surpluses that you end up with at the State level; and how the surpluses become an even program that is supposed to be making up the core of the transition.

Second, we share, as other people do, the notion that the taxes, which are allowed to make the trust fund whole at the time, are not sufficient or appropriate to our State. I hope that Congress will work on that point. Oil taxes are not available to us, obviously. The support for funding would be from another source to erase that problem.

I would like to point out one thing. In Minnesota we have been held up as, or indicated as, an example of a State that has done well in a number of program areas. I want to mention to you that local governments have, indeed, benefited from working with the State, the legislature and the Governor. In recent years, this has not been as productive as it has been in the past. We have seen the cooperation of both governments, at the level of priorities in funding and in other decisions of the State legislature, diminished over time—both relatively and absolutely. Cities were cut substantially when our State was faced with a terrible financial problem over the last few years. Indeed, when funds were available over the last 4 years, cities did not receive priority allocations from the legislature and the Governor as we had in the past. So our position is that the State's solving of those problems which occur with priority decisions has declined, both relatively and absolutely.

Second, we see a continuing problem of fiscal stress in our State government. Everyone concludes that the solutions to the problems by the Governor and the legislature recently have not made the problems go away. Funding is going to be a problem because of our national

economy and because of other things that have been thrust on the system. So, we would view with some concern the possibility of a large sum of money coming into the State which is theoretically allocated to city governments through the National Legislature and the national allocations system. We find that it would then have to be reallocated by the State legislature which has a whole hassel of other problems before them at that time, such as balancing the State budget and dealing with the very politically explosive question of high taxes. We feel that there would be very serious difficulty with respect to those kinds of priorities being mixed all together in the State legislature, and the State legislature finding a solution that would fit with the source to which those decisions were originally made in Washington for the allocations.

We are also concerned about the diminution of the total amount that the administration announced that it would put in. You start with X and you end up with Y which has been struck by a big $5 million to $7 million in program support. That would be a continuing concern that we would have. I don't believe that we can take a program and indicate that you are going to hold people harmless at the State level for certain purposes, and then shrink the total amount of money which might be made available to the local governments by a very substantial amount.

We feel we ought to start out by making sure that no money disappears between the cracks in the totaling up of what the transient programs are, to begin with, and then that they are not diminished in such a way that we can hardly fund what we have already. We are concerned that there be some protection with respect to the past; that that matter simply not be laid on the table and forgotten; that that protection, we feel, should be guaranteed for a long period of time; and that there should be no terminations.

We have some questions about some of the programs which are included. I don't think we should include General Revenue Sharing at all in the programs that we shift. I think that can be worked out. Indeed, they are going down funding tracks now into a funding cycle. It could be disruptive and could be very costly.

There is a very interesting history of what happened in our State legislature with respect to the Small Cities CDBG program which was under consideration the last session. Ultimately, a bill that would have some impact on that decision was vetoed by the Governor for some significant reason, but it was a jerky kind of a consideration.

I see that the red card is flashing. I thank you again for the opportunity to be here.

Senator DURENBERGER. Thank you very much. We have about 24 minutes remaining before they kick us out of here. I'm going to ask one question, and then go to Governor Snelling and Mayor Naftalin. In the 1970's they will credit Minnesota with two important political slogans—one is the so-called Minnesota Miracle and the other about 6, 7, or 8 years later called the Minnesota Massacre.

The first is symbolized on the cover of Time magazine by a Governor standing on a dock with a lake in the background, holding a fish in one hand and passing out State-collected money to local govern-

ments in the other hand. That was called the Minnesota Miracle. It had been perpetuated throughout the 1970's.

In 1978 you have the so-called Minnesota Massacre in which the majority of the people who voted in the State of Minnesota in effect turned out the Minnesota Miracle party and put in a different political party. But the 1979 session of the legislature, as I recall, came up with some kind of a combination of what the massacreists might have expected—indexing the State income tax system—and what the miracleist would perpetuate—huge additional aid in the form of property tax relief.

My question is to anyone who would like to respond. I am looking at the so-called Minnesota Miracle and the path we chose to go down here in the State of Minnesota over the last 10 years. Rather than going down this path of municipal aid, property tax relief and levy limits, might we not have been better, in retrospect, to give more program autonomy to local governments and/or tax autonomy to the local government and done less taxing and spending at the State level? In other words, should we not have put local officials more in control over the destiny of their own communities in Minnesota? Would someone like to be the first to start out?

Mr. NAWROCKI. Well, Senator, as you know, what happened here in Minnesota—which I think is interesting, and you tried to make some protection for that in your proposals for New Federalism—for many years there was strong concern about the rising dependence on property taxes to support local government services. We searched around for alternative sources of revenue and came up with the local sales tax. This was implemented in Minnesota. A certain amount was dedicated to local governments. As the Minnesota Miracle grew, that dedication was taken out of the tax. Then local governments became dependent on the whims and fancies of the legislature, and on other programs that the legislature tried to fund.

I think what happened here is that the miracle workers and the massacreists kind of stumbled all over each other trying to do great things for their taxpayers. They took, what I think everybody would agree, a good concept of indexing and overdid it. So, of course, you have to recognize that the downturn of economy is sort of the culprit there, too. I think everybody tried to outdo each other by doing great things for the taxpaver. They destroyed or, at least did a lot of damage to the taxing system that was providing the revenue.

Your proposals under the New Federalism would dedicate a portion of income taxes. We have to recognize, too, that it is nice to say that we give more taxes to the local area, but that is a very equitable sort of thing. Some of the areas, as mentioned here earlier, would have guaranteed resources. That is fine. They are in a great position to raise local revenue within the State. But other forms of taxation find the same kind of disparity. One thing that is done at the higher levels of government is to collect taxes and take care of some of these inequities in that system. Unfortunately, I don't think it is going to be an answer to say "Local units of government give us no income tax authority, or sales taxing authority, or whatever," because the resources they can draw from are so divergent from community to community.

Mr. WEAVER. Senator, thanks for leading into this. I am an absolute and total advocate of the Minnesota Miracle. I believe, in fact, that Minnesota Miracle was a miracle. Whatever was said in the early 1970's or mid-1970's is, in fact, what we were trying to accomplish, if each taxpayer in a similar situation would pay the same amount of taxes for the same amount of services. A determination was made that apparently the real estate taxes are unfair. With the sales tax, at least, if you spend the same amount of money, you will pay the same amount of money in taxes. Same is true with the income tax—the same incomes pay the same amount of income taxes.

Concerning the burden of local schools and local cities calling on the real estate tax, a determination was made to propose a sales tax and to raise the income tax so that the money could then be distributed back on the basis of need to hold down the real estate taxes. Obviously, no one said that that money did, in fact, result in school aid or that it was absolutely equitable in the State of Minnesota. I am sure there are some municipal officials who will argue for the municipal aid formula. The fact is that, as a result of the Minnesota Miracle, we were one of the few—if not the only—State in the country that really had a tax structure that did, in fact, say that "every individual similarly situated with someone else would receive the same services whatever the services might be, and would essentially pay the same amount of tax." It was, in fact, a miracle. But a lot has happened since then.

Senator DURENBERGER. Mr. Slater?

Mr. SLATER. We are concerned that we have flexibility for raising taxes. As you suggested, we would like to obtain more of that authority. Lending limits are very difficult to work with. We would like to have more flexibility.

We are also concerned about the property taxes. As I believe you are indicating, using that as a complete and sole source of our essential tax flexibility, at the local government level, would be an inequitable decision in our opinion. So, we would like to have the flexibility of the property taxes. I know of no council that looks forward to going and raising property taxes, nor does it willingly.

So, in direct answer to your question, we think we need some property tax relief. It is best collected by the State, through the State system, but a great deal more flexibility is needed with respect to taxation.

Mr. SPARTZ. Mr. Chairman, I think there are really two fundamental issues here that are being discussed. The first one is, at what level should policy be appropriately set for a particular kind of program. A number of us have agreed, for example, that the income maintenance policy is really a national obligation and a national function. Education, I think a lot of people can clearly argue, is most appropriate at the State level. That is what the Minnesota Miracle is really all about—State financial policy for education at the local level.

The other question that comes in here is, what is the appropriate mix of taxation. Minnesota happens to be a State with relatively low property taxes, although we just had to raise them quite a bit in the last year; a moderate sales tax; and a rather high income tax. Politically, that is acceptable to me but, obviously, there are a lot of other good public policy thinkers around who would say there should be a different mix which would be appropriate.

For example, if you were God, Senator; and you declared that the county of Hennepin was now a State and that I was the Governor, I would be pleased. People who live in Hennepin County live in one of the richest counties in the country. We could very adequately take care of all of our problems if we were allowed to retain all our own resources. We have about a quarter of the population of the State, and we provide between 35 and 40 percent of the revenues to the State government in support of other programs.

I would not agree with that kind of a policy because I think we are part of a whole just as we are 50 States united. We are 87 counties in one State organized in a political entity. I think I have an obligation to help support the programs, whether it be in Lake of the Woods or Mahnomen, just as the richer areas, from time to time, have to help me out.

I think we have to try to look at the thing in a systematic integrated whole. We need to decide what is the best level for policy implementation and what is the appropriate mix of tax revenue. I think that is what the debate on the New Federalism is about. That is why I appreciate the debate, even though I don't agree with some of the proposals.

Mr. SNELLING. I would like to address that question of Mr. Slater's. I am sure we will all agree that justice does not vary from town to town, and county to county, and that people's needs have no artificial jurisdiction. When we use the term Federalism, we refer to the relationship that was undertaken when States, which preexisted and which were sovereign, came together to form the United States.

In most—but not in all—States, local jurisdictions on the other hand are creatures of the State and of its legislative body. A point of fact was, what is fair for urban or for rural areas varies from State to State. There are States where it is the rural areas which have the highest poverty, the greatest health problems and the greatest financial needs and the urban areas have the lowest unemployment and the highest income and the like.

What is the logic which says that the Federal Congress should decide how State legislatures charged by their oath of office should achieve equity as it regards all of the people in their State? What is the logic that would justify the Federal Congress determining how funds, which are intended to achieve equity within the State, should be distributed; or authorizing direct distribution to a political subdivision which is a creature of the sovereign States?

Mr. SLATER. That raises the issue that you and Arthur Naftalin were discussing earlier. It occurs to me that your response to his question about minority representation was interesting but not complete. Minorities are better represented in my opinion in the U.S. Congress, at least in regards to our State. For one reason, the composition and jurisdiction of the legislature is much more complete. To say that you represent the minorities of 400,000 people is much more apt to be the case than if you are accountable to a much, much smaller slice of, say, 30,000. So, minority representation is much more enhanced when a representative is accountable for a larger body which includes a minority. That includes their ability to participate in a way which is not generally possible in a much smaller jurisdiction or district.

So the size and composition of a legislative district makes a real difference. The State legislature, in my opinion, tends to be much more specifically representative of the neighborhood cities and small towns than is the Federal Congress. Therefore, it deals in a much more detailed way with interest in the possible wholesale level of representation.

I fully agree with you that the cities are the creatures of the State, and that they should be treated as such; and that the State should have the capability to make priority decisions for the minority needs—it might be urban in one case and rural in another. On the other hand, the program which I suggested ought to be protected in the establishment of the trust funds. It ought to rest on decisions that were fairly and carefully taken in those cases.

For example, if we take General Revenue Sharing, there are $57 million allocated to our State in a particular year. That formula could be questioned. In fact, our State this year has been declining slightly over time, in part because of the disadvantage of our per capita income. It is a fairly high per capita income and, therefore, the State's share is much lower money. If we suddenly said to our legislature, "Here is $57 million; we want to divide that up on a fair basis," it would probably not be divided on the basis for which they are presently allocated by a long shot. That could be a most upsetting decision. The decision of our State is to run between 5 and 10 percent of their general operating budget from GRS. If they were to suddenly find that that 5 or 10 percent were suddenly, radically altered, it would be a very difficult decision to deal with.

That would be true of several programs. We feel as though those programs have been established and are settled. They are coming to the cities today and have been bargained out on a much more comprehensive representational basis than at the Federal Congress level. Then, to simply open those up now and to redecide all those decisions would be a loss—not to say, however, that the States are inappropriate for priority decisionmaking——

Mr. SNELLING. So your point is, if I follow it, to observe the status quo with respect to such problems of revenue sharing; and not that any turnback proposition that funds which are allocated to the State for general purpose or general issue should not follow any kind of historical preconceived pattern?

Mr. SLATER. Yes.

Mr. NAFTALIN. Senator Durenberger, I would like to ask a question of you as well as of the panel. I am referring back to your time in Minnesota when you were then in the catbird seat with respect to the establishment of the Metropolitan Council. We—and Mr. Weaver, of course, who is the current chairman of that Council—pride ourselves in our approach to metropolitan problems. I would like to ask both of you, what would happen under the proposal as you understand it, Mr. Weaver, for the New Federalism; and as you understand it, Senator Durenberger, to the future of the Metropolitan Council? Would it strengthen it or weaken it? Does it create an opportunity for some kind of special recognition of State governments that will improve their capabilities to assume new responsibilities?

Senator DURENBERGER. It is my assumption—and I hope I am not setting any precedent for the rest of the day by answering this question. The question that the whole notion is embodied, in at least my view, is that it is local government when we are talking about a swap, a turnback. A relationship between the Federal and State governments implies that States, in order not to lose benefits which arise out of the old categorical federalism. are going to need to use either some fiscal mechanism like the Fiscal Disparity Act or some of the other planning and coordinating mechanisms like the A–95 review, and so forth. They will need to come with original development in order to respond to the pressures that will come from individuals and from local governments to more effectively carry out their new responsibilities.

Mr. WEAVER. I feel very strongly, as I indicated before, that the role of the Metropolitan Council is, at least as important, if not the most important thing. The thing we are looking at, if you are going to the State administration of all these grants, and then if you don't have a basis on which to judge the various applications—I think you indicated there were 190 applications for the elderly—you have got to have some basis for judgment. The problem is political. If you don't have some basis for judgment, then it becomes a political judgment influenced by who has got the best voice in the State House, or in the legislature, or in the Congress.

We found in the Metropolitan Council that when an application is submitted, people know the policies that are in effect. They have had the opportunity of input into the development of those policies. They know, going in when they make an application, probably how they are going to stand. They don't argue. The determinations of the policies are determined by the folks involved and are applied on the grant basis.

I think that really applies across the board. You have got to somehow avoid an apparent political problem of not using a process that politicians can go along with. So I think developing those programs of policy is terribly important in making and using the right program.

Mr. NAFTALIN. Coming off what Jeff Spartz has said—about his willingness to share the bounty of Hennepin County with the other counties of the State and his recognition that there are these disparities, and that they are all part of one entity—how do you other members of the panel view the prospect for inequities and disparities? Will they be improved? That is, will they be better under the New Federalism, or will it accentuate the present difficulties?

Mr. NAWROCKI. Well, obviously, it depends on whose New Federalism you are talking about. As indicated in my remarks, I think that Senator Durenberger tries to address such disparities that exist in his New Federalism. I think we would come closer to achieving that if that is the New Federalism we are discussing. If we are talking about maybe the President's New Federalism, I would be more worried about that happening. We would be quite willing to share Hennepin County's wealth, however.

Mr. SLATER. Senator, I want to follow that with some observations. If you are talking about a massive shipment of grant programs, as well as other funding sources, the States have no experience in grant programs. Distributing money, allocating priorities and devel-

oping the formulas happens and goes on quite well in the State legislature. But, in terms of designing a grant program for communities and counties—where they decide what they want to do, they put together an application, and bring it to somebody who reviews it and approves it, and then the funds are allocated—that does not go on at the State level very often, if at all. So, you are asking the States to deal with that question and to deal with it efficiently and effectively. You want them to make equitable decisions at State administrative levels, as well as legislative process stands to rule by what takes place. It is a very good thing. It is a thing that requires a lot of attention both by the legislature and the Governor. Thank you.

Mr. SNELLING. May I just make a brief observation? I think it is possible that, if in the evolutionary process of civilization we had never discovered grants, it is just possible that we would be further along than we are now; because, in the process of discovering grants, we have found a way to take our eyes off of an awful lot of very important social problems.

Senator DURENBERGER. We will chew on that during lunch.

Mr. SPARTZ. Mr. Chairman, before I get seriously misrepresented by the press about my suggestion on sharing Hennepin County's wealth. [Laughter.] I would like to liken Hennepin County to a sheep. I don't think it is unfair to say we are willing to share some of the wool but the mutton is ours.

[Mr. Spartz's prepared statement follows:]

ASSOCIATION OF
MINNESOTA COUNTIES
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I AM JEFF SPARTZ, HENNEPIN COUNTY COMMISSIONER AND A MEMBER OF THE ASSOCIATION OF MINNESOTA COUNTIES (AMC) BOARD OF DIRECTORS. THE ASSOCIATION INCLUDES ALL MINNESOTA COUNTIES AND REPRESENTS COUNTY COMMISSIONERS AS WELL AS OTHER ELECTED AND APPOINTED COUNTY OFFICIALS. I SPEAK TO YOU TODAY AS A AMC BOARD REPRESENTATIVE. I WANT TO DO THREE THINGS: EXPLAIN OUR POSITION ON THE PRESIDENT'S NEW FEDERALISM PROPOSALS; SECOND, COMMENT ON THE MEDICAID PROGRAM; AND THIRD COMMENT ON THE AFDC PROGRAMS.

IF WC DEFINE THE NEW FEDERALISM AS A TRANSFER TO THE STATE AND LOCAL GOVERNMENTS OF BOTH PROGRAM AUTHORITY AND RESPONSIBILITY AND APPROPRIATE FINANCIAL RESOURCES, MINNESOTA COUNTIES SUPPORT THIS PHILOSOPHY. THE PROBLEM, OF COURSE, OCCURS IN THE DELINIATION OF HOW MUCH AUTHORITY, WHICH RESPONSIBILITIES AND WHAT APPROPRIATE FINANCIAL RESOURCES ARE TO BE TRANSFERRED.

MINNESOTA COUNTY OFFICIALS BELIEVE THAT THE FEDERAL GOVERNMENT SHOULD CONTINUE TO BEAR THE MAJOR FINANCIAL RESPONSIBILITY FOR BASIC HEALTH CARE OF THE POOR AND A SIMILAR RESPONSIBILITY FOR INSURING A MINIMUM STANDARD OF LIVING FOR CHILDREN, THE ELDERLY, AND THE INCAPACITATED. THERE ARE SEVERAL REASONS FOR THIS PHILOSOPHICAL STATEMEN 1. ECONOMIC AND NATIONAL EMPLOYMENT POLICIES MARKEDLY AFFECT THE DEMAND FOR INCOME SUPPORT SERVICES. THESE POLICIES ARE CONTROLLED BY THE FEDERAL GOVERNMENT AND THE STATES AND LOCAL GOVERNMENTS HAVE LITTLE INFLUENCE. 2. BOTH THE NATIONAL AND STATE GOVERNMENTS HAVE A VARIETY OF TAXING RESOURCES AVAILABLE AND THE STEADINESS OF A BROAD TAX BASE. 3. BASIC HEALTH CARE AND MINIMUM INCOME SUPPORT ARE FUNDAMENTAL AND WIDELY SUPPORTED POLICIES OF THE UNITED STATES AND THUS REQUIRE A BROADER POLICY PERSPECTIVE THAN SINGLE COUNTIES OR STATES CAN OFFER.

AS A PRACTICAL AND PRAGMATIC COMMENT ON THE STATISTICS PROVIDED BY OMB REGARDING THE SWAP, AMC BELIEVES THE COSTS TO THE STATES ARE UNDERSTATED. COMPARING THE COSTS OF MEDICAID, AFDC AND FOOD STAMPS AS THESE PROGRAMS NOW EXIST AND PROJECTING AHEAD TO FFY84, THE CONGRESSIONAL BUDGET OFFICE STATISTICS INDICATE THAT MEDICAID COSTS WILL BE $19.1 BILLION WHILE THE OTHER TWO PROGRAM COSTS WILL BE $20.6 BILLION. WE CONCUR WITH THIS ANALYSIS.

WE RECOMMEND THEREFORE, THAT THE FEDERAL GOVERNMENT CONTINUE TO BE RESPONSIBLE FOR THE MEDICAID AND AFDC PROGRAMS. WE WOULD SUPPORT CASHING OUT THE FOOD STAMP PROGRAM IF SUFFICIENT ATTENTION IS GIVEN TO THE INCOME SUPPORT PROGRAMS.

AMC BELIEVES THAT A DIFFERENT SITUATION EXISTS IN PRESIDENT REAGAN'S TRANSFER OR TURNBACK PROPOSALS. WE BELIEVE THAT THE DESIGN OF THESE PROGRAMS VARIES APPROPRIATELY FROM LOCALE TO LOCALE AND IS LARGELY DETERMINED BY FACTORS SUCH AS CULTURAL BEHAVIORS, GEOGRAPHY, POPULATION DENSITY, AVAILABLE FACILITIES AND PROFESSIONAL RESOURCES.

AMC RECOMMENDS THAT THIS TRANSFER BE IMPLEMENTED WITH THE PROVISIONS THAT ADEQUATE FEDERAL RESOURCES ACCOMPANY THE TURNBACK, THERE IS A GUARENTEE OF A PASS THROUGH TO THE LOCAL DELIVERY SYSTEM, REQUIRED ADMINISTRATIVE COSTS, REGULATIONS AND REPORTING REQUIREMENTS ARE MINIMAL; AND A REASONABLE PERCENTAGE OF THE FEDERAL INDIVIDUAL AND CORPORATE INCOME TAX RECEIPTS BE ALLOCATED TO EACH STATE. COUNTIES DO NOT SUPPORT THE PRESIDENT'S PROPOSAL OF TURNING BACK EXCISE TAXING POWER WHICH OBVIOUSLY IMPACT STATES IN WIDELY DIFFERING WAYS.

OUR POSITION ON THE NEW FEDERALISM IS INFLUENCED BY OUR EXPERIENCE WITH THE STATE OF MINNESOTA. IN EFFECT, MINNESOTA CAN BE VIEWED AS AN EXPERIMENT PARTICULARLY IN THE STATE'S RELATIONSHIP WITH ITS COUNTIES IN PROVIDING HUMAN SERVICES.

OVER THE PAST FEW YEARS COUNTY GOVERNMENT, IN CONCERT WITH MANY STATE OFFICIALS, HAS BEEN WORKING HARD TO ADOPT AND IMPLEMENT THESE PRECISE CONCEPTS IN MINNESOTA. WE BELIEVE IT IS WORKING WELL.

IN 1973, A SWAP AND TRANSFER APPROACH BEGAN IN MINNESOTA, CULMINATING IN 1979. THE STATE LEGISLATURE ADOPTED POLICIES WHICH MADE THE STATE THE PRIMARY PUBLIC BODY RESPONSIBLE FOR THE INCOME SUPPORT AND HEALTH CARE OF THE POOR. THE STATE TOOK OVER THIS RESPONSIBILITY FROM THE COUNTIES SO THAT THERE COULD BE:

-PROGRAM EQUITY STATEWIDE

-A FULFILLMENT OF THE CONCEPT THAT THE STATE AND FEDERAL GOVERNMENTS ARE BEST ABLE AND MOST APPROPRIATE TO ADDRESS THE BASIC NEEDS OF THE POOR

-PROPERTY TAX RELIEF

AT THE SAME TIME THE STATE BEGAN TO TURNBACK TO THE COUNTIES SPECIFIC HEALTH AND SOCIAL SERVICE CATEGORICAL PROGRAMS. THE CATEGORICALS ARE NOW STATE BLOCK GRANTS TO COUNTY BOARDS WITH A LOCAL MATCH REQUIREMENT. THE BLOCK GRANT PRINCIPLES ARE:

-FUNDS DISTRIBUTION BASED ON A NEEDS FORMULA

-SIGNIFICANT LOCAL PROGRAM AND ADMINISTRATIVE DISCRETION

-STATE ESTABLISHMENT OF PROGRAM STANDARDS

-PREDICTABLE STATE FINANCIAL SUPPORT

MINNESOTA'S APPROACH IS UNIQUE AND ALTHOUGH LOCAL CONTROL CRITICS ABOUND, THE SUCCESS OF THIS APPROACH HAS BEEN HERALDED BY MANY.

SUMMARY OF GENERAL RECOMMENDATIONS:

1. THE FEDERAL GOVERNMENT SHOULD BE RESPONSIBLE FOR MEDICAID AND AFDC.
2. THE FEDERAL GOVERNMENT SHOULD TRANSFER TO THE STATES AND COUNTIES GRANTS AS PROPOSED WITH AN APPROPRIATE PERCENT OF INDIVIDUAL AND CORPOPATE INCOME RECEIPTS. ALLOCATIONS SHOULD BE BASED ON NEED AS MEASURED BY MULTIPLE FACTORS.
3. THE LOCAL PROPERTY TAX SHOULD NOT BE CONSIDERED A MAJOR REVENUE SOURCE AND CURRENT PROPERTY TAX BURDENS SHOULD NOT BE INCREASED.
4. FUNDING MECHANISMS SHOULD PROVIDE MAXIMUM FLEXIBILITY SO THAT RESOURCES MAY BE ALLOCATED TO MEET LOCALLY DETERMINED NEEDS.
5. PRIOR TO IMPLEMENTING MAJOR CHANGES, SUFFICIENT LEAD TIME MUST BE PROVIDED FOR ADEQUATE PLANNING AND A SMOOTH TRANSITION.
6. STATES AND COUNTIES SHOULD NOT SUFFER FINANCIAL LOSSES DURING ANY TRANSITION - THIS INCLUDES EFFECTS OF A MEDICAID TAKEOVER ON STATES SUCH AS MINNESOTA.

MEDICAID

MINNESOTA COUNTIES HAVE STRONGLY SUPPORTED BASIC LIFE PRESERVING MEDICAL CARE FOR THEIR RESIDENTS. IN FACT, STATE AND COUNTY GOVERNMENTS FINANCIALLY SUPPORT AN ADDITIONAL MEDICAL CARE PROGRAM FOR INDIGENTS WHO ARE INELIGIBLE FOR MEDICAID. FEDERAL BUDGET AND TAKEOVER PROPOSALS REGARDING MEDICAID ARE DISTURBING TO MINNESOTA AND IF IMPLEMENTED WILL HAVE AN ENORMOUS FINANCIAL IMPACT. THE MEDICAID BUDGET IS A SUBSTANTIAL ELEMENT OF THE STATE'S BUDGET. OF THE APPROXIMATELY $3 BILLION BIENNIAL BUDGET, MEDICAID ALONE REQUIRES APPROXIMATELY 8%. THE TOTAL MINNESOTA MEDICAID BUDGET HAS RISEN FROM $566 MILLION IN SFY 1980 TO AN ESTIMATED $840 MILLION IN SFY 1983. MINNESOTA OFFERS OPTIONAL SERVICES NOT PROVIDED IN OTHER STATES, ALTHOUGH

WE QUESTION WHETHER ANYONE WOULD SERIOUSLY CONTEND THAT PROGRAMS IN LONG TERM CARE FACILITIES AND STATE HOSPITALS ARE TRULY OPTIONAL SERVICES. THESE COSTS ALONE, LONG TERM CARE AND STATE HOSPITALS, ARE 78-80% OF THE MINNESOTA MEDICAID BUDGET.

WE ARE REALISTIC AND PRAGMATIC, WE UNDERSTAND THE NEED FOR COST CONTROLS IN THIS PROGRAM AND HAVE STRUGGLED OVER MANY STATE PROPOSED CHANGES, SUPPORTED AND INTRODUCED MANY COST SAVING MEASURES SUCH AS:

1. TIGHTER ELIGIBILITY CRITERIA
2. INCREASED CLIENT FEES
3. USE OF GENERIC DRUGS
4. INCREASED EFFORTS TO COLLECT ESTATE CLAIMS

BECAUSE OF THIS CONTINUING EFFORT OVER THE PAST 1 1/2 YEARS, WE, HERE IN MINNESOTA, KNOW FULL WELL THE IMMENSE DIFFICULTIES IN CONTAINING THE ESCALATING MEDICAL COSTS. I CAN NOT OVERSTATE OUR CONCERN OVER THE DRAMATIC REDUCTIONS THAT THE PRESIDENT IS PROPOSING IN HIS MEDICAID BUDGET (FROM $18 BILLION TO $17 BILLION).

THE PROPOSED 3% REDUCTION OF FFP FOR OPTIONAL SERVICES WILL SERIOUSLY JEOPARDIZE MINNESOTA'S LEVEL OF BENEFITS AND SERVICES.

WE FEAR THAT THE FEDERAL GOVERNMENT WILL NOT TAKEOVER MINNESOTA'S PROGRAM AND CONTINUE TO OPERATE IT AT THE SAME BENEFIT LEVEL, IF THE SWAP PROPOSAL IS ADOPTED. MINNESOTA CITIZENS, OF COURSE, WILL EXPECT TO RECEIVE THE SAME LEVEL OF BENEFITS AND WE WILL FIND OURSELVES LOST IN THE RHETORIC OF GOOD DEEDS AND NO MONEY.

THE CURRENT WIDE DISPARITY AMONG STATES REGARDING MEDICAID ELIGIBILITY AND SERVICES WILL NOT BE ENCOMPASSED AS A PERMENENT FEDERALIZED MEDICAID PROGRAM. MOST LIKELY, NATIONAL STANDARDS WILL BE NARROWER THAN USED IN SEVERAL STATES, INCLUDING MINNESOTA.

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WE RECOMMEND THAT THE FEDERAL GOVERNMENT RETAIN PRIMARY, IF NOT TOTAL RESPONSIBILITY FOR MEDICAID, OPTIONAL SERVICES REIMBURSEMENT BE MAINTAINED AT THE SAME LEVEL AS MANDATORY SERVICES, BUDGET REDUCTIONS BE PHASED IN, AND IF MEDICAID IS TAKEN OVER BY THE FEDERAL GOVERNMENT AND NOT MAINTAINED AT THE MINNESOTA LEVEL, THAT MINNESOTA RECEIVE ADDITIONAL COMPENSATION IN THE BLOCK GRANT TRANSFER PROGRAM. ADDITIONALLY, WE WOULD SUGGEST THAT PRUDENT BEHAVIOR WOULD BE TO DISCOURAGE ADDITIONAL EXPANSION OF THIS PROGRAM OVER THE NEXT YEAR.

AFDC

MINNESOTA HAD THE HIGHEST RATE OF AFDC RECIPIENTS WHO WERE WORKING PRIOR TO THE 1981 OMNIBUS BUDGET RECONCILIATION ACT. PRIOR TO IMPLEMENTATION THE MINNESOTA DEPARTMENT OF PUBLIC WELFARE ESTIMATED THAT 14,500, OR 27%, OF OVER 53,000 FAMILIES WOULD BE AFFECTED BY THESE CHANGES. IT WAS FURTHER ESTIMATED THAT 4900 FAMILIES WILL NO LONGER BE ELIGIBLE, 4000 FAMILIES WILL HAVE GRANTS REDUCED, AND 5,000 FAMILIES WILL CEASE WORKING TO STAY ON AFDC. THE EFFECT OVER THE SHORT RUN IS LOWER EXPENDITURES BUT THE EFFECT OF NON-WORKING RECIPIENTS MAY WELL BE GREATER COSTS OVER THE LONG HAUL. EXPERIENCE DEMONSTRATES THAT RECIPIENTS ONLY LEAVE THE PROGRAM WHEN OUTSIDE INCOME IS SUFFICIENT. IT IS THEREFORE WISE TO CONTINUE ENCOURAGING RECIPIENTS TO BE EMPLOYED.

MINNESOTA COUNTIES SUPPORT RECIPIENT WORK PROGRAMS. ASSISTANCE, SUCH AS THAT OFFERED BY HENNEPIN COUNTY, EG., ORIENTATION, STRUCTURED JOB SEARCH, AND LIMITED ASSESSMENT/PLACEMENT COUNSELING IS AS EFFECTIVE IN MEETING THE GOAL OF GETTING RECIPIENTS TO WORK AS THE FAR MORE EXPENSIVE TRAINING PROGRAMS OFTEN UTILIZED. THE KEY IS FOCUSING ON AVAILABLE JOBS RATHER THAN EXTENSIVE TRAINING.

AMC RECOMMENDS THAT THE FEDERAL GOVERNMENT RETAIN RESPONSIBILITY FOR THIS PROGRAM, THAT WORK INCENTIVES AND WORK PROGRAMS BE MADE COST EFFECTIVE, THAT PERSONS WHO VOLUNTARY QUIT THEIR JOB BE INELIGIBLE FOR ASSISTANCE, THAT EMPLOYABLE PARENTS BENEFITS END WHEN THE YOUNGEST CHILD REACHS THE AGE OF 16, THAT ALL HOUSEHOLD INCOME BE CALCULATED WHEN DETERMINING BENEFIT LEVELS, AND THAT THE ZERO ERROR RATE PROPOSAL BE DROPPED.

I APPRECIATE YOUR TIME AND ATTENTION AND WILL BE HAPPY TO ANSWER ANY QUESTIONS.

Senator DURENBERGER. Well thank you very much. This hearing will reconvene at 2:15 p.m. right here. We will have a State panel followed by a human resources panel. This hearing should conclude at about 4:30 this afternoon.

AFTERNOON SESSION

Senator DURENBERGER. The hearing will come to order. The Subcommittee on Intergovernmental Relations of the U.S. Senate will continue its hearing on the New Federalism initiatives. As we explained this morning, we have added one or two new twists to Senate procedure for this hearing. In this case, the twists are the Governor and former mayor.

I am pleased to be joined this afternoon by Gov. Richard Snelling of Vermont, who will be able to be with us for an hour or so, I believe; and Prof. Arthur Naftalin of the Humphrey Institute. These gentlemen have been assisting the subcommittee by acting as Surrogate Senators to test the comments of our witnesses.

Gentlemen, thank you for being here.

We will take our witnesses in two panels this afternoon. The first panel will include officials of State and local government. The second panel will speak primarily to the income security issues raised by the New Federalism, and from their perspectives as administrators and advocates in the human resources system.

Do either of you have any comments you want to make before we introduce the panel?

The first panel includes Lynn Cutler, supervisor of Black Hawk County, Iowa. Bill Schreiber, who is the Assistant Minority Leader of the Minnesota House of Representatives, is on Lynn's left. Kent Eklund, who is the commissioner for the department of energy, planning, and development for the State of Minnesota, is on her right.

Ms. Cutler and gentlemen, welcome to the hearing.

Before each of you make your statement, please let me ask your assistance in making sure that our hearing moves forward on time. Please keep your comments to somewhere in the area of 8 to 10 minutes, and provide brief answers to the brief questions that are being asked. We have a light system. You're familiar with the light system we have in Washington. With the yellow light, you have a minute left, and with the red light, you're out of time. We're substituting for that. A young woman by the name of Ruth Doerflein has made yellow and red signs which are self-explanatory.

I appreciate the fact that you're here. I guess we can go in the order of introduction. Lynn, you'll be first.

TESTIMONY OF LYNN CUTLER, SUPERVISOR, BLACK HAWK COUNTY, WATERLOO, IOWA; WILLIAM SCHREIBER, STATE REPRESENTATIVE, MINNESOTA; AND KENT E. EKLUND, COMMISSIONER, DEPARTMENT OF ENERGY, PLANNING, AND DEVELOPMENT, STATE OF MINNESOTA

Ms. CUTLER. Thank you, Senator. I'm delighted to be with you and the Governor again. I'd like to just take a couple of minutes. We have

been deeply involved in this topic together for a period of time since ACIR has been deeply involved in discussions of evolving different models over the last several years. I come to it at this point in time, with perhaps a different perspective than the one I had when it was an interesting, intellectual exercise to discuss what it might be.

A little over a year ago, I had the pleasure of being in Governor Snelling's State and discussing this topic before a large group of people. The Governor was there. We were still hopeful at that time—at least I was still hopeful at that time—that we would indeed see a kind of convocation. Many of us in the National Association of Counties, the National League of Cities, the National Conference of State Legislators and, of course, the National Governors' Association were still hopeful that this kind of national convocation would take place. We were hoping that there would be a serious, in-depth sorting-out of roles, a serious assessment of which level of government was best qualified to perform which function.

What happened, of course, in my opinion, has been a rather top-down dictum of which level of government is best suited for which roles. What we have, instead of the kind of interchange and intergovernmental dialogue many of us had hoped for, is a proposition and a lot of reaction to the proposition.

There are those of us who have some deep commitment to a truer form of this Government whittling away the Federal role to at least a role which makes more sense for those of us in State and local government. Frankly, my fear is that, before it's all over, what we will have, instead, are years and years of inability to raise this subject again, because attitudes have been hardened. There are deep feelings on both sides of the aisle on this subject.

Let me refer to a couple of issues, if I may. The National Association of Counties and other public interest groups have long stood for, and continue to stand for, the federalization of the welfare system. I think that it still makes no sense to talk about the turnback of AFDC to the States. I think that it is clearly a program which falls into the criteria we have used at ACIR and other places. There are questions like: Which level of government is best able to perform which function? Is it something within the national interest or is it not?

As somebody who fought for many years to do away with 99 county welfare boards in the State of Iowa—which we finally achieved in 1973—I have absolutely no interest in seeing the devolution of that particular function back to the county, much less to the State.

Let's take the State of Iowa, for a quick example. You all, in your wisdom, wrote into the last legislation on income verification: "Wherein, to get away from people who have large fluctuations in their income and are continuing to receive public assistance, that there would be some method of verifying." It was a very loosely written law.

Having received that dictum, the State of Iowa said, "OK. Go forward and develop something." It has now proposed a 5-page form. I have a master's degree, Senator, and I can tell you I had a great deal of trouble with the form. It must be filed by the first of every month by every recipient of AFDC. If they fail to file it within 5 days, there is an automatic cutoff of public assistance payments without recourse.

My board and the bipartisan movement went to the hearing on this proposed form and said, "No. No. This is a terrible thing to do. You're going to impact county welfare. You're creating terrible kinds of paperwork and so on." I offered this as a very quick example of what has, unfortunately, been my experience now for almost 8 years as a county commissioner in Iowa.

Somehow, there is this wonderful idea which has floated out—and I say this, with all deference to my colleagues from State government, to the Governor—that the State somehow will do it in a leaner, meaner fashion with less paperwork and less bureaucracy. This is an idea that I think has yet to be proved. Certainly, when it comes to something like life support programs and life sustaining programs, I take serious exception—as an individual, as a member of the National Association of Counties, and as a former board member—to the idea that we should pass-through food stamps or AFDC to the States.

There are a couple of other wonderful stories about what our State is doing with a community development block grant, but I won't take time this afternoon to deal with that. I will only say to you that "them that has is getting," and everybody else is standing in line, particularly the very small communities.

In preparation for being here, I held some meetings with city and county officials in some of the 16 counties in which I have traveled recently. In the interest of time, I also ask to have entered into the record, Senator, an article that I wrote which appeared in the Des Moines Register in March. It is about the whole issue of federalism, vis-a-vis, the infrastructure situation.

[The article referred to follows:]

[From the Des Moines Register, March 1982]

NEW FEDERALISM IGNORES INFRASTRUCTURE CRISIS

(By Lynn Cutler)

President Reagan's recent visit to Iowa and his comments before the Iowa Legislature not only ignored the current plight of American agriculture and the terrible economic dislocation, it also failed to acknowledge the direction we are forced into by the current federal budget, the "Economic Recovery Act," and the new Reagan-Stockman proposals.

America is headed for a new war between the states. This one will pit the oil and defense-rich states against their poorer counterparts in fierce competition for industry and jobs. At the same time, the industrial states of the North and Midwest, as well as some older "Sunbelt" cities, are severely handicapped in their efforts to retain and lure industry because of the deplorable state of their roads, bridges, water and sewer systems, mass transportation, and the shortage of own source revenues.

We have an unfinished interstate highway system that already needs an estimated $26 billion in repairs. The cost of fixing or replacing heavily traveled old bridges is put at $41 billion by the Federal Highway Administration. That's more than the long-term borrowing of all state and local governments last year. Rural roads and highways are crumbling under heavy grain trucks they were never meant to carry. One mile of secondary road in Black Hawk County, Iowa, costs $100,000; a rough estimate for a four-to-six lane highway is a million dollars a mile.

But getting local citizens to pick up the costs of such staggering capital improvements is next to impossible, as many communities have discovered. Voters across the nation have rejected more property tax increases and have passed Proposition 13 clones even though it has meant living with fewer services, leaky sewer systems, and streets that resemble moon craters.

After voters rejected a proposed one-half percent rise in property taxes last June, the city of Toledo, Ohio, budgeted no money for capital improvements. City officials in Baltimore estimate it will cost $420 million over five years to fix the city's roads and bridges. If Maryland lawmakers go along with the governor's proposal to raise the 9 cents-a-gallon gasoline tax at the pump to 13.4 cents—which is highly controversial—Baltimore would get $85 million. With that amount and additional city and federal funds, Baltimore would still be $200 million short of the money it needs for improvements.

So far, the Reagan Administration has responded to this impending "infrastructure crisis" with an elaborate shell game called New Federalism in which the problem is hidden beneath the pea and the shifted from one level of government to another. For the losers—those states and local governments without the taxing capacity to maintain adequate roads, water, sewage, and transit—it's a classic case of shifting the shaft.

Just as the President's tax and budget cutting policies benefit the rich at the expense of the working class and needy, so will his turnback plan reward the lucky states and localities that are population and industry rich, while penalizing those cities with high unemployment and shrinking tax bases, and those rural communities on the brink of attracting small-scale industry and jobs for those people who can no longer make a living off the land.

The Advisory Commission on Intergovernmental Relations (ACIR) has studied the mismatch problem of various program turnbacks or swaps. Consider this one alternative. If federal Community Development Block Grants, Urban Development Action Grants (UDAGs), and mass transit subsidies were eliminated in favor of an equal amount of revenue sharing for local governments, considerable distortion would occur, says an ACIR staff report. For example, St. Louis, Mo., would lose 20 percent of funds; Black Hawk County, nearly 13 percent. Charleston, S.C., would be better off by 10 percent.

Furthermore, according to Business Week, the President's tax saving incentives such as the All Savers certificates are drawing off investors from tax-exempt municipal bonds, which local governments use to finance expensive capital projects thus further squeezing their borrowing capacity. Industrial development in some hardpressed urban and rural areas may also be thwarted by proposed Administration curbs on industrial revenue, hospital and pollution control bonds.

For years, local governments have been balancing their budgets by deferring maintenance of aging facilities and postponing building new plants. The Administration's latest call for $10 billion in cuts to state and local governments will only put additional pressure on elected officials to keep shifting funds out of infrastructure and into essential services.

This is an unacceptable choice. The question is not whether states or local governments should feed people or build sewage treatment plants. The question is how do we do both, and how do we fairly apportion the financial responsibility among the partners in the federal system.

This means we have to define what states and local governments do best and what should be handled by the Federal government because it is in the national interest. For example, to cut off transportation aid to Iowa denies that an adequate grain to market network is in the best interest of the American people. To ignore the needs of decaying cities and poor rural communities is to doom the prospect of national industrial recovery.

Healthy cities and towns mean healthy states, counties, and a healthy nation. Industry cannot grow and prosper without sewer hookups, and an adequate transportation network to move people and goods.

Representative Henry Reuss, a Wisconsin Democrat, warns in a report of his Congressional Joint Economic Committee that "a city which is in the process of raising taxes or cutting services and which is resting on a decaying infrastructure provides no inducement to business expansion."

The President is correct in proposing that we take a hard look at intergovernmental responsibilities. But he needs to look at the whole, complex picture. The President's proposed brand of Federalism won't do anything to stem the tide of a rising crisis for many state and local governments.

It is high time to do the "sorting-out" of roles that many of us in government have been advocating. That discussion will make clear that we cannot continue to advance national policies that create permanent regional schisms. A climate for economic growth and development and the resultant jobs must be fostered nationwide, with assistance to struggling states, cities and counties in true part-

nerships with the federal government. Real commitment to our future as a nation mandates these partnerships. As we stand at the brink of the 21st Century, we must revitalize the intergovernmental system with a fair and equitable plan.

Ms. CUTLER. I feel very strongly that, with the withdrawal of Federal support for highways, sewers and water, my State has lost over $20 million in sewer and water funds, and for roads and bridges. What we're creating in this country is a permanent economic civil war. The only communities that will have their own source revenues to maintain the infrastructure will be those that are energy rich. It will not be difficult for my colleagues in Houston, Phoenix, and Tulsa—and in the counties in which those cities reside—to maintain and, thus, attract growth, development and jobs.

It would be extraordinarily difficult in my community. If I can't run a sewer line out to that plant that wants to come in and locate in Black Hawk County, or can't pave the road out that way, they're not going to come. It's just that simple.

I think some very serious thought needs to be given to this entire issue. So much has happened without proper reflection. So much has happened without an eye to the future, to what so many of these things would mean 5, 10, 15, or 20 years down the road. I really don't think that this country wants to develop that kind of economic schism which would become, in fact, a permanent one. These are hard times. We sit in a State that knows that very well.

In my own State, farm income is at a terrible level. Our tax collections are down and our farm sales are up. Our unemployment is very, very high—it's over 8 percent which, for Iowa, is extraordinary. John Deere Tractor Plant in Waterloo, Iowa, had an unprecedented shutdown for 8 weeks. Thank God, they're back open. Lots of people were laid off. This is not a time, it seems to me, to talk about devolving to the States programs with this kind of pricetag without a careful consideration of the funds to help the States pay for it.

The bottom line for us in local government is, and always has been, we want a piece of the action. None of the legislation said they even had to talk to us, except the CSA legislation. At the bottom of the totem pole, it looks real scary right now.

I will stop and be delighted to answer questions.

Senator DURENBERGER. Thank you. Since you mentioned the 16 counties you were traveling in, I wouldn't want anyone to think you were peddling pots and pans or something. Lynn is currently a county supervisor, which is a counterpart of a county commissioner in this State. She also happens to be running for Congress. I won't tell you what party, but she is the vice chair of the Democratic National Committee.

With that, we will turn to our next witness, Bill Schreiber. Bill was elected to the House of Representatives of Minnesota in 1972, after serving 5 years on the Brooklyn Park City Council. He is a member of the local and urban affairs committee in the House and is recognized in Minnesota as an expert on the issues raised by the President's New Federalism. Bill, welcome.

Mr. SCHREIBER. Thank you, Senator Durenberger. First of all, I think it's appropriate to thank you for bringing this hearing to

Minnesota. We're a blessed State, I think, with many people who are really deeply committed to making the government work better. Of course, right now, that means a better relationship between the Federal, State and local units of government.

Over the years that I have served both as a city councilman and as a legislator in Minnesota, I think the partnership arrangement between the local units of government and the State have really been enhanced. We have many good working programs and a sharing of resources at the State level with the local units of government, so that, in many cases, they can effectively deliver services to their people.

However, over the past 20 months, the State of Minnesota has had one series of revenue shortfalls after another. So, we've seen that State-local unit partnership tested time and time again. It did not come out in the same form that it started. Perhaps that close feeling of partnership that once existed is no longer there.

On the other hand, I think we have all learned quite a bit from that experience. Perhaps some of that learning ought to be shared with the Federal level, because as you talk about cutting back funds to State and local units of government, you're probably going to find some of the same experiences.

Perhaps the first question, though, we need to ask is, "Is there a change needed in this Federal relationship with State and local units of government?" As an observation, I would have to say that I doubt that there is an elected official in this country who knows all of the programs which are available to him. I doubt there is a Congressman or Senator who knows all of the programs that have passed over the years. From a purely policymaker standpoint, we have to ask, "Is that good, that it has become so huge that no one can know exactly what's going on?"

In my experience of dealing with cities, I know that a number of them have applied for grants of programs where they fit the criteria, but it wasn't necessarily a priority need in their community. Yet, because there wasn't any grant for that top priority, they went for something else where they did fit. We found many local officials who have run on platforms, using the number of Federal grants they had been able to attain for their community. I think you have to question whether it is really a rightful role for a public official to say, "This is what I've got for you from the Federal Government." It's a grantsmanship gain.

When you talk to people in the welfare area—not necessarily the administrators, but rather the hands-on people who deal on a day-to-day basis with the recipients of our various welfare social service programs—they will tell you that they feel that, over the past several years, they have been buried in redtape. They are not providing the level of service that they used to provide. The same degree of caring is not there today that was there, perhaps, 10 years ago.

Talk to special education teachers. They will tell you that they're buried in redtape. They're buried in paperwork. Talk to elementary principals. They're so frustrated with filling out forms. They're not being able to supervise teachers as they thought they were supposed to do when they were hired as a principal. They, too, are not as productive as they ought to be.

Then, when we hear that there is a $5 billion price tag for administering these various Federal programs that flow down to the State and local units of government, we have to ask, "Is this a price we can afford?"

So my judgment, indeed, is that a change is needed in this Federal-State relationship. It's not a question of "If the change will occur," but rather "When will it occur." I agree with Governor Snelling that it ought to be done soon.

There are two programs to which we've been exposed. One would be the administration's program as it relates to the New Federalism; and of course, the other is Senator Durenberger's alternative. I would have to say that, as it relates to the revenue resources, I am in support of the Durenberger proposal.

We clearly need some certainty to whatever you do at the Federal level. Utilization of a windfall profits tax is not certain. In fact, in my own mind, I have a bit of a problem with even a cigarette or a liquor tax phaseout which says the States can pick it up, because essentially what we're saying is that a State which has a high degree of alcoholic consumption and cigarette smoking is going to be rewarded. I'm not so sure that that's good public policy.

Now, how does this relate to Minnesota? We found it necessary to cut back funds not only once, but several times this last year—to school districts, counties, and cities. We did this after the fact—that is, after their budgets had already been adopted. This created some very difficult decisions on the part of the local units of government.

One of the items which the National League of Cities came forward with, and support was there among many of the mayors around the State, is that they would now like to see a percentage of the sales tax going for local government aids, rather than direct appropriations by the legislature, which is, and has been, reduced because of our revenue shortfall. The argument goes something like this: If they know that they are going to be dependent upon a flexible revenue source, such as a percentage of the sales tax, they will plan for that accordingly. On the other hand, when the legislature appropriates a specific dollar amount and adopts a formula which appears to give them a fixed dollar amount, they fill that amount in with their budget. Then the legislature pulls back on that amount. It really creates a chaotic situation.

So, yes, our local units of government make some strong statements in regards to having some flexibility and recognizing that they're going to have to share in the ups and downs of the economy. However, they feel that can just be done by taking a share of a different tax. Senator Durenberger, you have proposed that at the Federal level as well. I would heartily endorse that program.

I think the one area that I have some concern about, as it relates to shifting these programs back to the States, is that most States in the country—Minnesota, for sure—has a constitutional requirement to have a balanced budget. In the event of a long-term economic downturn, we simply are not able to go out and borrow the way that the Federal Government does. If we are saddled with a number of these social types of programs that will be inherently more costly during an

economic downturn, it could place the State in a very precarious situation.

I think this morning a fair amount of time was spent on income maintenance. I think we ought not to forget about a city infrastructure, talking about sewer and water lines. Many of these are deteriorating, wearing out. A decision needs to be made as to whether they are going to be funded. Is the Federal Government going to participate in any of this? If not, we ought to know that and be able to plan for that so that the local units of government and the State can plan accordingly.

Indeed, I think there is a national need that we have a good and adequate transportation system. It's an area that is quite rapidly deteriorating right now. I have not, for the life of me, figured out why the Federal Government has chosen to leave the Federal gas tax at 4 cents since 1959. Now, you're talking about another 4-cent increase right now. If we look at a 4-cent increase every 23 years, obviously, it's not going to handle our needs in the highway building and rebuilding area. I would suggest that a 1- or 2-cent increase every couple of years would be far more appropriate.

So with that, I will close off and respond to any questions. I do want to emphasize that I think it's important that you, your colleagues, and Congress move ahead on that New Federalism program. Second, and most importantly, I think that whatever you do, you should develop a long-term program that can provide certainty to both the States and local units of government so that we are in a position to plan accordingly.

Senator DURENBERGER. Thank you very much.

Our final witness on this panel is Kent Eklund, who is the commissioner of the department of energy, planning, and development for the State of Minnesota. Kent is originally a political scientist from the University of Pennsylvania, where he got his doctorate. He came to Minnesota to be a professor at St. Olaf's. He was elected mayor of Northfield, and he's now commissioner of everything for Governor Quie.

Commissioner Eklund has been the focus for Minnesota's response to the New Federalism initiative. He spent some time, about 6 weeks ago, with me, Tom Pettit from NBC, and a group of State and local government officials. He stuck with us for about 3 hours, which I appreciated. He's been more than responsive here in Minnesota to our needs for answers to questions.

So, Kent, it's my opportunity to express my appreciation to you for your help, and to welcome you as a panelist this afternoon.

Mr. EKLUND. Thank you, Mr. Chairman and members of the Intergovernmental Relations Subcommittee. I am pleased to come before you today to participate in this hearing on New Federalism. As the commissioner of the Minnesota Department of Energy, Planning, and Development, I also serve as the State planning officer. In that capacity, I serve as chairman of the Governor's task force on Federal budget. At the national level. I am currently serving as president of the National Association of State Development Agencies (NASDA).

Mr. Chairman, first of all, let me compliment you for the leadership role you have taken in this long-needed examination of the federalism issue. Your many hearings over the last year, I am sure, have been, to

a great extent, responsible for bringing into focus for both Congress and the Reagan administration the pressing need for the examination of the relationships among the Federal, State, and local governments of this country.

As a representative of the Minnesota State government, I am also grateful for your interest in obtaining our input into the process of this examination. Finally, let me also congratulate the staff of the subcommittee, particularly Jimmie Powell, for the excellent work of the past 18 months.

In August 1981, Gov. Al Quie established the Minnesota Task Force on the Federal Budget Reductions, consisting of the heads of those State departments and agencies most affected by Federal program changes. The purpose of this task force has been to provide an interagency perspective on changing Federal budgets and programs. The task force has identified how various budget changes have modified State and local programs, how these changes have affected various clientele groups, and how various service providers have responded to Federal changes. In addition, since February, this task force has also identified and studied the alternative proposal presented by the chairman of this subcommittee, Senator Durenberger.

The issues that I will be identifying are a collection of those items the various departments which constitute the task force identified in their examination of the two Federalism proposals. The positions these departments have taken are not necessarily official policy statements of the Quie administration. They do reflect, however, the genuine consensus of those in one State who are attempting to respond to the New Federalism with excitement, innovativeness, and compassion.

The focus for my comments will be on administrative and executive branch issues as it relates to the Federalism proposals. Allow me to begin by identifying some of the major issues that are related to President Reagan's New Federalism proposal. The first group of issues relate to the AFDC/food stamp-medicaid swap.

The first problem arises from the fact that the actual fiscal year 1983 funding levels for these programs are, obviously, still very much uncertain. Until Congress and the President can agree on a 1983 budget, it is very difficult to establish the base from which we can assess the actual impact of the swap.

Related to this issue are questions concerning what estimates of rates of increases in these programs were used in the preliminary information included with the President's proposal. Estimates made by the Minnesota department of public welfare suggest a $193 million net to the State as a result of the swap. The fact is, there is $299 million given in the President's proposal.

Part of the problem of establishing reliable fiscal impacts relates to the questions concerning options in medicaid. The proposals for the swap are unclear concerning the Federal Government's assumption of the optional portions of the medicaid program. Minnesota has traditionally assumed a compassionate stance, vis-a-vis options. It is unclear how these funds used for optional services are built into the program which would be assumed by the Federal Government. It is also unclear what alternatives will the States have to continue these optional services. Will States that have exercised the various options

of providing additional services be forced to augment the Federal medicaid funds with State funds to maintain the same level of support to its citizens?

Other questions related to the swap are: What guarantees are there that any decisions made in 1982 to implement the New Federalism will be adhered to in 1984, 1986, or 1989? How would State funded administrative positions in the medicaid program be treated? Would those State employees automatically become Federal employees? What local incentives would be built into the Federal medicaid program to insure cost containment provisions?

Cost containment provisions appear to be a critical portion of the administration's private sector initiative. Yet the role of these initiatives in the New Federalism program is unclear.

The second group of issues we identified related to the turnback provisions of the President's proposal for New Federalism. Again, it is difficult to measure accurately the impact of these changes until actions have been completed on the 1983 Federal budget.

At this point, I will simply assert that I would echo Governor Snelling's remarks of this morning. That is, it would just be refreshing to see some decision coming from Washington as soon as possible.

It is difficult to trace the reductions that have been proposed for most of the 120-plus categorical programs, which have been blocked into 43 block grants and slated to be turned back under the new proposal. In addition, some of these categorical programs are proposed to be included in new block grants in 1983 before they are given to the States in 1984. All of this creates a very uncertain picture.

If a State opts to participate immediately in the turnback block grant program, the honoring of previous commitments to local governments can create problems for the State. Minnesota serves as a good example of this problem.

As a result of the swap and the turnback provisions of the New Federalism proposal, the block grants that Minnesota would receive would total $236 million. Based on our estimates, in 1982, the local governments may receive as much as $245 million in Federal funds from those programs which will be included in the turnback. These programs will have multiyear commitments. This would mean that the State would have to pass-through all of the block grant funds to the local governments with no real freedom to change or to modify, in any way, the programs.

One of the most critical issues the State would face under the New Federalism program is the reallocation of State funds. This would be required as a result of the interrelationship of the swap and the turnback. In Minnesota, the $299 million savings which would result from the swap would have to be allocated to a broad array of programs, including many outside the human services area. I'm referring to the 43 block grants. This interaction could well involve every committee of the legislature.

A good example of the types of problems which are likely to result is in the transportation area. Most of the transportation funding in this State comes from a dedicated trust fund. The savings the State derives from the swap will accrue to the general fund. In Minnesota, it would be necessary for the legislature to break its long-

standing tradition of not infusing trust funds with general fund revenue in order for the Department of Transportation to receive its share of the $299 million.

This interaction is also related to my earlier point concerning medicaid. If the Federal Government does not assume all the options Minnesota currently exercises, and if Congress allows the State to keep such options, the legislature could decide to absorb the $299 million windfall from the swap into those medicaid options. This would leave the 43 block grants of the turnback $299 million short. Although this may fit with the administration's policy of allowing such decisions to be made at the State level, this freedom could cause serious problems for the local governments in Minnesota who would bear the brunt of these budget reallocations.

As you can tell, Senator, I sometimes don't know if I'm a mayor or a State official. We also have some concerns about the relationship between the trust fund and the use of excise taxes as a source of funding. I simply think that has been well dealt with by others.

We find in Minnesota that the proposal you've made is much better, much more to our liking. Your proposal to lessen the impact of the 1983 budget act by the creation of a special revenue sharing fund would certainly ease the impact of making significant program cuts while shifting responsibilities to the States.

We were also encouraged by your proposal to dedicate permanently 6 percent of the revenue raised through the Federal income tax to a trust fund from which the States would receive funds. We find it somewhat ironic that, at precisely the same time, the State of Minnesota is asking local governments to participate in the volatility of the State's economy in their fiscal planning. This proposal asks the States to do the same at the national level.

However, we're getting so we do have some questions regarding your proposal in terms of the allocation of moneys from the permanent trust fund, the measurement of equalized fiscal capacity, the actual incentives within the proposal, and others which are highlighted in the document I submitted. My testimony is to highlight the concerns and the questions I have regarding the two Federalism proposals which we have reviewed. I offer these concerns and specific questions as part of an attempt to continue a productive dialog on the issue of federalism. Although we obviously still have many questions, I feel that the willingness you have demonstrated to keep the channels of communications open among all levels of government is most encouraging. I thank you for the opportunity to participate in this hearing.

Senator DURENBERGER. Thank you very much, and thank you to all the panelists. Bill, let me start with a question to you. I guess I've often drawn a comparison, without knowing if it's accurate, between what we do in Congress and what you do in the legislature here.

When government has a fiscal crisis, it has three choices available to it. The first is to reduce spending, the second is to increase taxes, and the third is to do things differently. I have been an advocate of doing things differently at the Federal level. I feel that the other two choices just aren't responsive to what I see out here in the way of a demand by people in this country.

You seemed to indicate that you've dealt with the same kinds of options in the Minnesota legislature. In the last 20 months, you have done some spending reduction and some tax increasing.

I'm curious to know whether you have done any improving in the way government delivers public services. Or, whether it's even possible today for State legislatures, given the 500 different kinds of ways we slap golden handcuffs on you, to change or improve the role of State government in the delivery of public services?

Mr. SCHREIBER. Senator, I think, to some extent, that has been addressed; although I would say our solution in Minnesota tended more toward either budget cuts or tax increases, neither of which are popular.

As it relates to reorganization, yes, there was some of that. We have three departments combined into one with Kent Eklund as the chairman. That was done as a cost saver. One State hospital was closed as a cost saver.

You have to recognize that the Federal Government has not had a corner on mandates. The State legislature in Minnesota, and I expect throughout the country, have done their fair share as well. In fact, the point, where it has become very difficult to establish role accountability in local units of government, has been where they are able to point a finger at the State or Federal standards which they are required to pull.

There was a look at mandates. To some extent, they were reduced at the school district level to allow for more flexibility and more innovation. It was not nearly to the extent that many of us thought it should have occurred. Perhaps through the intervening months and by the time we get to the next legislative session, we'll be in a better position to reduce mandates even further as it relates to school districts.

The area of mandates to cities and counties have, in my judgment, changed very little. But, again, there is a constituency out there among the providers of the services who are saying, "My God, we have to change some if we're going to effectively deliver this service, because we simply aren't able to cut our budgets any more. This means we have got to find a better way of doing the job."

Senator DURENBERGER. One of the issues I raised this morning, when we had the local government panel—I guess I can ask it of you because we have a mayor, a legislator, and a city council member—is the business of local autonomy. My impression of Minnesota, since we use the sales—we invented the sales tax in reaction to what we thought was a horrible property tax back in the late 1960's. Then we really did it up good with the "Minnesota Miracle." We've really done a lot by way of property tax relief, municipal aid, school aid, and so forth; but I'm not sure that we've done a lot by way of local autonomy.

The League of Cities made a recommendation about dedicating a percentage of the State sales tax.

Where are we headed in this whole relationship between State and local governments in terms of local autonomy? What can you expect out of the State legislatures? For example, can you expect them to provide for access to resources to local government? Or, is that just impractical because of the large dollars which are already involved?

Mr. SCHREIBER. Senator, I think we have a political problem. State legislators like to go home and tell their people what they have given them—whether it be city councilmen, or school board members, or just other constituents.

In Minnesota, we have the most complicated property tax system in the country by far. Yet, every 2 years legislators have been able to go home and show how they greased the wheel, in some respects. So, an effort toward simplification of the property tax won't get very far in the Minnesota legislature. We're no longer able to give the perks out to our folks.

The same is true in school aid formulas and so on. Unfortunately, many legislators see it in their political advantage to keep things rather complex and not give local autonomy to the extent it ought to be. We have levy limits in Minnesota. The Governor made a very strong plea for the lifting of levy limits. Many of us supported that, but it did not get through the legislature, by a long shot.

Senator DURENBERGER. You leave me with the impression that legislators go home and feel they won't get elected if they raised property taxes, that mayors and county supervisors can get reelected if they've held down the property tax, and that nobody runs any more in Minnesota on the basis of improving the quality of education or the delivery of health services. Is that accurate or inaccurate?

Mr. SCHREIBER. I think, Senator, by and large, that is accurate.

Senator DURENBERGER. Thank you.

Mr. EKLUND. Senator, I would like to respond to that. I think what we haven't done in the State of Minnesota is create some priorities in terms of the public debate. Just how much diversity do we want to encourage at the local level? If you do increase the local fiscal capacity, you are also increasing the likelihood of diversity. This may mean quality of services, or it may mean different types of services and delivery systems. But at the same time, it may also mean that some will have greater resource pools with more to innovate.

I think what we end up with is the perversity of the Golden Rule. If the legislature has given more and more local government aid, they've also been able to work out in their own minds the mandates since, after all, we're footing the bill.

That whole debate, which is similar to the debate we're doing today, states the national needs to be focused in this State. I think you're right; it has not been.

Senator DURENBERGER. Thank you very much. Governor?

Mr. SNELLING. I'd like to ask Lynn a question regarding her concern about the loss of Federal funds as they may be used, for example, to facilitate the construction of an industrial plant or the like.

I guess my question is, if you had to state your preference between an assured capacity to meet the fundamental social service requirements of the people of your State because of an adequate level of block grant funds or pressure releasing grants from the Federal Government, or of the continued eligibility for such narrow purpose grants, such as for a facility that would permit a construction of a new industrial plant, which would be most valuable to you? Or, are you saying that what you can't do is compare the two, that you cannot

really visualize a tradeoff being in the best interest of the people of Iowa?

Ms. CUTLER. Obviously, I can't envision a tradeoff, particularly in the examples you offered to me, Governor. I don't think a narrow categorical program would necessarily enable us to help with the industrial park. Many communities have used the Community Development Block Grant funds for those kinds of purposes. I just offer for consideration that a program which has been a block grant is folded into the State level. The States are able to develop their own criteria. What is happening is that systems have been developed, at least in my State, to reward the local communities. They are punitive to those who are already poor by nature of a tax base. What is not happening is there has not been this larger discussion about this kind of issue.

I would never propose a tradeoff between maintenance of an infrastructure of the Nation and maintaining a quality of life for its people, particularly those who live at the very margin. I would rather not build a B–1 bomber.

Mr. SNELLING. That was a rephrasing of the question. If you were sure that Iowa could have fair treatment for its elderly, its poor, its sick, you were sure that the State could afford that without ruinous taxation, wouldn't Iowa vote the funds necessary to provide adequate infrastructure and industrial sites? And if they wouldn't, what would the argument be?

I remember, for instance, your strong opposition to the Chrysler bailout. Tell me why it would be right to assist communities to compete for industrial locations under those circumstances if you knew that every State could, in fact, afford adequate social services because of the use of the Federal capacity?

Ms. CUTLER. Let me quickly correct something. I never stated avid opposition to the Chrysler bailout. For the last 4 years, I have been saving a pork plant in my community. I feel that it should be done on a case-by-case basis. We have 2,500 people working today because of those kinds of partnerships. I believe in those kinds of partnerships. I don't feel it has to be a universal situation.

Remember back when we first all began to talk about this? We said that the States had the fiscal capacity to do certain things, if the Federal Government were to take over some of those programs which were determined to be in the national interest. At that time, many of us said individually and as public interest groups that we felt the Federal Government should take AFDC and medicaid; certainly they should continue food stamps; and, in many instances, people felt they should take over the maintenance of the Federal highway system. Then that would free up the dollars at the State level for education, for the arts, and for many of those programs that certainly fall more into the purview of State and local governments, because they're better equipped to administer them.

I stand by that. I just don't feel any need to move away from that position. I looked for a long time. For 4 years, I have been deeply involved in the welfare reform issue. I clearly believe that AFDC belongs at the Federal level, and I believe that it can be fixed; it needs fixing. There were several programs on the boards that could have

done that and could have provided strong jobs and programs. I'm giving you a bigger answer than you wanted, but I still stand firmly on the side of the Federal Government doing those programs.

Mr. SNELLING. May I just ask one more question?

Ms. CUTLER. Assuming they're paying for it.

Mr. SNELLING. Yes.

Mr. NAFTALIN. I'd like to pursue this for just a moment. Ms. Cutler, when you talk about the federalization of welfare, where does the administration of welfare end and social services begin? Can you draw a distinct line?

Ms. CUTLER. AFDC, being income maintenance payments to people to provide life sustaining income, and social services being programs, like for child care and for homemakers.

We're talking about the same kinds of things I think that title 20—which is a block grant program; was a block grant; is still a block grant, I guess now at a different level—provided, again, in the kinds of partnerships between the Federal, State, and local governments that enabled us—at least in my State and, I think, in many other States. I share with the subcommittee that it was working. We were able to have the pooling of funds from the different levels of government, along with private source dollars like the United Way and others, to provide social services, human services to people in need. I think that it had a great deal of flexibility. States were able to write their plans. There were only five basic mandates within it. We were able, at the local level, to decide into which programs we wanted to put our tax dollars.

I think in many ways. there were lots of problems in the give and take between the locals and the State. In many ways, it embodied some of the things I think it should, and this partnership should embody.

Mr. NAFTALIN. The mandates you refer to are State mandates?

Ms. CUTLER. The States added on a few, but the Federal mandates had to do with certain basic requirements within the title 20 block grant legislation.

Mr. NAFTALIN. That's the point at which I was getting. Would you retain the Federal mandates in the delivery of human services?

Ms. CUTLER. Yes; I would. There would be universality, fairness, equal access, and civil rights provisions for one thing. We're talking about a basic minimum life support kind—I wish I could pull out the words; I have dealt with it for so many years; I should be able to. Then the family planning function was required as one of those.

I think whatever we do, given the history of the Nation and some of our friends in other States not nearly as progressive in their tradition as Minnesota, there will need to be certain very basic mandates at the Federal level. Those, I believe, should include civil rights mandates and equal access opportunity for people to participate.

Mr. NAFTALIN. It sounds to me as though you're pretty much for the status quo as regards Federal-State relations.

Ms. CUTLER. No; I don't think that I am.

Mr. NAFTALIN. What are the changes? I'd like to track the changes that you think would be desirable.

Ms. CUTLER. OK. I will go back to what I said. My colleagues in the county governments in Minnesota, unless it's changed in the last few

months, are still paying 25 percent of AFDC costs out of local property taxes. I believe the same situation exists with medicaid. Is that still true, Commissioner?

Mr. EKLUND. I'm not sure, but they're still paying.

Ms. CUTLER. Well, OK. However, in 18 States that is still the case. Fortunately, we do not have that in Iowa. Our position as counties is that the Federal Government ought to assume the entire program. We would then shift that burden away from local property tax dollars. I'm saying that as a county official and for my colleagues in county and city governments around the country. There are programs that we could then assume with the freed up local revenue.

What is happening now is that much is being passed on down without the resources to even begin to maintain the basic structure of the program. When I talk about title 20, I'm talking about a program that is a block grant. I'm talking about CDBG which is a block grant. When I talk about CETA, which I haven't—but I could, you know—those were programs at hand. I think those are the directions we ought to pursue. We ought not to overregulate them so that we deny the creative capability of local governments to deal with it.

I would seek that change, but this sorting-out simply has not happened. I feel very strongly that these other programs are clearly in the national interest. In order to be truly fair and equitable, they have to be run that way.

Mr. NAFTALIN. One more question. Mr. Schreiber, Mr. Eklund has painted a rather gloomy picture about all the horrors that would be deposited upon the State government of Minnesota in the way of conjectural possibilities—who is going to be employed on which budget and with what rules and regulations. He's got a whole list of things.

What do you think the State legislature should do about this? Anything? Is this a matter that gives you concern in your role as a State legislator?

Mr. SCHREIBER. Mr. Naftalin, there are several advisory committees that have already been established. These committees are working through either the department of welfare, the State planning agency, or others. The State legislators are participating. I think that participation is important.

Second, I'm hoping that this last legislative session was rather unique in that we spent nearly all of our time working with budgetary problems. Tempers were short, and a great deal of partisan politics prevailed. It was not a healthy situation.

We know we're going to have many new members coming into the legislature next year, because 32 out of 134 in the House have already announced that they will not be coming back.

So, my guess is that during the next session more time will be spent on this sorting-out process, because it needs to be done.

Mr. EKLUND. If I could just address myself to the adjective used to describe my testimony. I did not want to appear gloomy. I wanted to appear to be—as I think we have tried to be in the executive branch of Minnesota—carefully identifying what the real management issues are going to be. I think you will find uniformly across the departments, as I said at the beginning, a certain excitement about what the potential is.

However, we do have to have answers to these questions before we can be responsible. After all, our boss is the Governor and the legislature. That was the purpose of my testimony today, to get some of those very nitty gritty kinds of questions into the record to help make our plans.

One quick point: We find ourselves in an unusual situation in Minnesota, at least in one of our block grants—the Community Development Block Grant. The local government is the main recipient in the Small Cities CDBG program. They have been so happy with how the HUD area office has administered the program, that they're telling us that if the State wants to take it over, just don't change anything. This is a somewhat unusual position in which to be.

Senator DURENBERGER. In conclusion, and maybe as a bridge to the next panel, let me try to add some dimension to the income maintenance or income security guideposts for which you are reaching. We have talked about universal coverage, and I think we pretty well covered that. The second one that I suggested was subsistence income. I take it you would agree with that as an important component?

Ms. CUTLER. Yes, sir.

Senator DURENBERGER. When we talk about subsistence income, I keep thinking about Texas and Mississippi. When I look at Mississippi, the problem there is fiscal disparity—the difficulty in finding the resources to tax and build a subsistence income level under those people. Then I look next door to Texas, and they don't have the resource problem. They still have the AFDC level at $140 a month, or something.

That suggests another kind of a problem, which maybe substantiates your argument that some of these issues need to be federalized. However, the more we federalize these things, the more we get to what is—should be, I guess—a third criteria for these programs. That is, to minimize public costs of these programs.

Right now, we have a public assistance system that costs Federal, State and local governments $92 billion. If there are about 28 million people at or under the poverty line, that's $12,000 a year for a family of four. That seems like a fair amount of money to be spending across this country, on the average, for public assistance. Your view is that we're currently doing a very good job at minimizing public cost.

The fourth one is maximizing employment. There we seem to do a pretty good job of taxing away whatever benefits we provide people. For every $1 a recipient earns, they seem to lose a $1.05, or something like that, in benefits. If you agree that maximizing employment is an important component, maybe you could react to that.

The last one, I think you already touched on, is progressive financing. You touched on that earlier when you talked about the Federal income tax being preferable to the property tax. Maybe you would look that over and make some brief comments—particularly about maximizing employment and minimizing costs in the current system.

Ms. CUTLER. Do you want me to begin? Let me just very quickly say that when you outlined the options the State had, you forgot one. In addition to reducing taxes or cutting back or doing something different, they could just pass the costs on down to the local govern-

ments—or some of us are calling it "the shift of the shaft." I don't think I want that in the record.

OK. There is no question that we could be doing a better job at cuting loss. There is just no question about it. I don't know enough about the internal workings of the Department of Health and Human Services. It was bad enough when it was HEW. We still are attempting to struggle with that. I cannot believe that really bringing a strong administrative businesslike approach to something like that could not help alleviate the situation.

In my State, they just voted to spend $2.9 million to uncover $3.1 million in fraud. I'm still struggling just a little with that. There is no question that it should be at the forefront of public consciousness. It is what makes people angry at recipients. It is what creates the national mood that we ought not to be helping people, which I do not think is a healthy mood for our Nation. It is not our heritage.

Clearly, the employment piece is, I think, as important as the minimum benefit check. The welfare reform discussions that I have been a part of over the last several years had employment as a key twin piece to it, as you well know, Senator. A system should encourage employment and provide incentives to people to move from public sector employment to private sector employment.

The current system, as you well outlined, is a disincentive; 60,000 families have left employment and gone back on the welfare rolls, because we have put in place such a terrible system of disincentives. It should be just the opposite. We should invest everything we can in the human capital of this Nation in terms of training people.

There is no cut that I feel worse about than I do the CETA cuts. We were a prime sponsor in my county. We were doing exciting, terrific things. We were training people and putting them to work. We placed them in community-based agencies so that they were providing other kinds of services. The dollar was magnified. People were paying taxes. Our transition rate was very high. I know it wasn't true in Newark, but I still don't understand why we're being punished in Black Hawk County.

I guess to sum it all up, there is no question that it needs fixing, but it doesn't need to be cut down. The tree of government did need pruning, not hacking off at the very ground level. I just wish that we could reconsider much of what has been done again with this view to the future, taking into consideration what makes a solid investment—whether it is in hard infrastructure issues, in business capital or in human capital.

Mr. EKLUND. If I could just respond. It seems that it is more philosophical than Lynn wants to participate. The very fact that the Newark CETA program helped to bring Waterloo, Iowa's CETA program down is the very essence of what the problem is. When you've got good local programs going, they end up in some form of national evaluation in which the bad ones can take the winners down. It seems to me that one of the fundamental parts of this debate is how you get down closer to where the evaluation of the program ought to take place and have the capacity to design those programs with that flexibility and keep the winners at the local level up and running.

Now, that creates another problem with your legislature and others. I think that is the essence of what this whole Federalism is all about.

Ms. CUTLER. Let me quickly say, I totally agree with you. The only reason Newark took Waterloo down was the Readers Digest.

Senator DURENBERGER. Thank you all very much for your contributions. I'm sure we could go about this all afternoon. I'm indebted to you for your testimony.

[The prepared statement of Mr. Eklund follows:]

PREPARED STATEMENT OF KENT E. EKLUND

Mr. Chairman, and members of the Intergovernmental Relations Subcommittee, I am pleased to come before you today to participate in this hearing on New Federalism. My name is Kent Eklund. I am currently the Commissioner of the Minnesota Department of Energy, Planning and Development, and as such, the State Planning Officer. In my capacity as State Planning Officer, I serve as the Chairman of the Governor's Task Force on Federal Budget. At the national level, I am currently serving as President of the National Association of State Development Agencies (NASDA).

Mr. Chairman, first of all, let me compliment you and the members of the subcommittee for the leadership role you have taken in the long needed examination of the federalism issue. Your many hearings over the last year, I am sure, have been to a great extent responsible for bringing into focus for both Congress and the Reagan Administration the pressing need for the examination of the relationships among the federal, state and local governments of this country. As a representative of the Minnesota State government, I am also grateful for your interest in obtaining our input into the process of this examination. Finally, let me also congratulate the staff of the subcommittee, particularly Jimmy Powell, for the excellent work of the past eighteen months.

In August, 1981, Governor Al Quie established the Minnesota Task Force on Federal Budget Reductions, consisting of the heads of those state departments and agencies most affected by federal program changes. The purpose of this task force has been to provide an interagency perspective on changing federal budgets and programs. The task force has identified how various budget changes have modified state and local programs, how these changes have effected various clientele groups, and how various service providers have responded to federal changes. Since February, this task force has also examined the "New Federalism" proposal outlined by President Reagan and the alternative proposal presented by the Chairman on this subcommittee, Senator Durenberger. The issues that I will be identifying are a collection of those items the various departments which constitute the task force identified in their examination of the two federalism proposals. The positions these departments have taken are not necessarily official

policy statements of the Quie Administration, but do reflect the genuine concensus of those who are attempting to respond to the New Federalism with excitement, innovativeness and compassion.

Allow me to begin by identifying some of the major issues related to President Reagan's "New Federalism" proposal. The first group of issues relate to the AFDC/Food Stamp-Medicaid Swap. The first problem arises from the fact that the actual fiscal year 1983 funding levels for these programs is still very much uncertain. Until Congress and the President can agree on a 1983 budget, it is very difficult to establish the base from which we can assess the actual impact of the Swap. Related to this issue are questions concerning what estimates of rates of increase in these programs was used in the preliminary information included with the President's proposal. Estimates made by the Minnesota Department of Public Welfare suggest a $193 million net to the state as a result of the swap rather than the $299 million given in the President's proposal.

Part of the problem of establishing reliable fiscal impacts relates to the questions concerning options in medicaid. The proposals for the swap are unclear concerning the federal government's assumption of the optional portions of the Medicaid program. Minnesota has traditionally assumed a compassionate stance vis a vis options. It is unclear how these funds used for optional services are built into the program that would be assumed by the federal government. It is also unclear what alternatives states will have to continue these optional services. Will states which have exercised the various options to provide additional services be forced to augment the federal medicaid funds with state funds to maintain the same level of support to its citizens?

Other questions related to the swap are: What guarantees are there that any decisions made in 1982 to implement the "New Federalism" will be adhered to in 1984, 1986 and 1989? How would state funded administrative positions in the Medicaid program be treated? Would those state employees automatically become federal employees? What local incentives would be built into the federal Medicaid program to insure cost containment provisions? Cost containment provisions appear to be a critical portion of the Administration's private sector initiative, yet the role of these initiatives in

the New Federalism program is unclear.

The second group of issues we identified relate to the turnback provisions of the President's proposal for "New Federalism." Again it is difficult to measure accurately the impact of these changes until actions have been completed on the 1983 federal budget. It is difficult to trace the reductions that have been proposed for most of the 120 plus categorical programs, blocked into 43 block grants and slated to be turned back under the proposal. In addition, some of these categorical programs are proposed to be included in new block grants in 1983 before they are given to the states in 1984. All of this creates a very confused and uncertain picture.

If a state opts to participate immediately in the turnback block grant program, the honoring of previous commitments to local governments can create problems for the state. Minnesota serves as a good example of this problem. As a result of the swap and turnback provisions of the "New Federalism" proposal, the block grants that Minnesota would receive would total $236 million. Based on our estimates, the local governments in 1982 will receive as much as $245 million in federal funds from those programs included in the turnback, which have multi-year commitments. This would mean that the state would have to pass all of the block grant funds on to local governments.

FEDERAL REQUIRED TO BE PASSED-THROUGH TO LOCAL
GOVERNMENTS UNDER THE "NEW FEDERALISM" PROPOSAL
(estimated FFY 1982 levels)

Wastewater Treatment Facilities Construction	$ 44,900,000
Community Development Block Grants	57,000,000
Urban Development Action Grants	20,000,000*
General Revenue Sharing	92,000,000
Urban Mass Transit Construction	9,000,000
Urban Mass Transit Operating	11,650,000
Water and Sewer Loans	3,500,000
Water and Sewer Grants	2,400,000
Community Facilities Loans	4,400,000
TOTAL	$244,850,000

One of the most critical issues the states would face under the "New Federalism" is the reallocation of state funds that would be required as a result of the interrelationship of the swap and the turnback. In Minnesota, the $299 million savings that would result from the swap would have to be allocated to a broad array of programs including many outside the human services area. This interaction could well involve every committee of the legislature. A good example of the problems that are likely to result from the swap/turnback relationship is in the transportation area. Most of the transportation funding in this state comes from a dedicated trust fund. The savings the state derives from the swap will accrue to the general fund. In Minnesota it would be necessary for the legislature to break its long standing tradition of not infusing trust funds with general fund revenue in order for the Department of Transportation to receive its share of the $299 million.

This interaction is also related to my earlier point concerning medicaid. If the federal government does not assume all the options Minnesota currently exercise, and if Congress allows the state to keep such options, the legislature could decide to absorb the $299 million "windfall" from the Swap into the medicaid options. This would leave the domestic programs of the Turnback $299 million short. Although this may fit with the Administration's policy of allowing such decisions to be made at the state level, this freedom could cause serious problems for local governments in Minnesota who would bare the brunt of these budget reallocations.

We also have some concerns about the relationship of the trust fund and the use of excise taxes as the source of funding. As the trust funds are phased out under the "New Federalism" and federal excise taxes are eliminated, the states may be free to pick up these revenues by instituting state excise taxes. However, revenues from these taxes vary significantly among the states. Cigarette and liquor taxes are likely to yield little revenue in Utah, and a windfall projects tax will yield little revenue in the energy poor states like Minnesota. In addition to these problems, it appears that excise taxes do not increase at the same rate as inflation. This means that states

will have to rely on other state tax resources just to stay even.

Now Mr. Chairman, I would like to turn to the alternative to the Reagan Administration's "New Federalism" you have proposed. The members of the task force in its examination of your alternative found many aspects that were more to their liking. We were encouraged by the proposal to lessen the impact of the 1983 budget act by the creation of a special revenue sharing fund. This would certainly ease the impact of making significant program cuts while shifting responsibilities to the states. We were also encouraged by the proposal to dedicate permanently 6% of the revenue raised through the federal income tax to a trust fund from which the state would receive funds. We find it somewhat ironic that at precisely the time Minnesota is asking the local governments to participate in a volatility of the state's economy in their fiscal planning, this proposal asks the states to do the same at the national level. We also strongly endorse your proposal to remove the windfall projects tax from the plan.

Some of the particular questions and issues raised regarding the alternative proposal center around the allocation of monies from the permanent trust fund. Is there any plan to add tax effort to the allocation formula? It appears to us that fiscal capacity as the only factor in the distribution of the trust fund only addresses half the overall issue for the states. It is also somewhat unclear what the level of funding for individual states would be if the state is above the average or median using the ACIR's formula for fiscal capacity. Exactly how will the formula work? Will states above the national average in fiscal capacity receive any trust fund money after 1989? What does it really mean to "equalize fiscal capacity?"

We also have some questions and concerns regarding the maintenance of effort provisions outlined in the alternative proposal. First of all, why was the 3% level chosen to determine when a state is not providing a maintenance of effort? More importantly, what is there to preclude a state from not achieving the 3% effort level and simply wait for the federal government to take over the responsibilities for the programs?

If in fact the state fails to maintain an effort and falls back on the federal government, would they jeopardize receiving funds from the trust fund that are used for the turnback programs?

As a final note let me again emphasize the importance of the federal fiscal year 1983 budget and the impact that it is likely to have on state and local governments in Minnesota. While we believe that it is important that we continue to examine the issue of federalism, a more immediate concern for Minnesota will be the cuts in programs that could result from the 1983 federal budget. I have attached as an addendum to this testimony, a table that outlines the level of reductions that Minnesota has received as a result of the 1982 federal budget and the level of reductions Minnesota would experience if programs were funded at the level proposed by President Reagan in his 1983 budget. These figures show the dramatic effect these cuts have had and would have on state and local governments. It will be difficult for the states to take on the new responsibilities when these reductions come at a time when many states such as Minnesota are experiencing fiscal problems of their own.

This testimony has highlighted the concerns and questions we have regarding the two federalism proposals we have reviewed. I offer these concerns and questions as part of an attempt to continue a productive dialogue on the issue of federalism. Although there are still many questions, I find that the willingness you have demonstrated to keep the channels of communication open among all levels of government very encouraging.

Thank you for the opportunity to participate in this hearing.

SUMMARY OF THE IMPACT OF THE PRESIDENT'S PROPOSED BUDGET FOR FEDERAL FISCAL YEAR 1983

(This table lists the level of funding reductions Minnesota could expect if the President's proposed budget for Federal Fiscal Year 1983 is adopted).

Program	FFY 1981 Funding Level	Expected FFY 1982 Funding Level	FFY 1983 Est. based on President's Budget
FmHA Community Facilities Loans	$ 9,000,000	$ 3,500,000	$ 3,500,000
FmHA Water & Waste Disposal System Grants	4,700,000	2,500,000	2,400,000
FmHA Water & Waste Disposal System Loans	10,000,000	5,500,000	4,400,000
HUD 701 Comprehensive Planning	450,000	0	0
HUD Section 8 Rental Assistance	2,662,000	2,500,000	N/A
HUD Section 312 Housing Rehabilitation	476,000	0	0
Economic Development Administration Program	3,000,000	1,800,000	0
Upper Great Lakes Regional Commission	900,000	0	0
Federal Highway Program	191,600,000	161,266,000	155,219,000
Airport Development Aid Program	6,600,000	N/A	6,600,000
Rail Service Continuation	2,000,000	1,680,000	960,000
UMTA Section 18 Nonurbanized Transit	1,600,000	1,400,000	0
UMTA Section 5 Formula Grants	14,600,000	13,600,000	11,650,000
State Energy Conservation Programs	1,048,000	653,000	0
Institutional Building Grants Programs	4,660,000	1,000,000	0
Construction Grants for Wastewater Treat.	45,137,153	0 [1]	44,900,000
LAMCON - Parks and Recreation	3,067,011	0	0
Youth Cons. Corps/Young Adult Cons. Corp	1,558,000	0	0
Rural Fire Protection	486,000	241,000	0
Dutch Elm Disease Control	97,000	0	0
Food Stamp Program	85,025,000	71,883,000	65,000,000
CETA	39,071,000	21,241,000	9,788,000
Energy Assistance	68,550,000	70,000,000	51,940,000
Weatherization	15,206,000	7,533,000	N/A

Program	FFY 1981 Funding Level	Expected FFY 1982 Funding Level	FFY 1983 Estimate based on President's Budget
Job Service	$28,125,000	$ 21,843,000	$ 21,800,000
Social Service Block Grant	54,376,000	42,959,000	35,000,000
Community Services Block Grant	5,636,000	2,817,000	775,000
Maternal/Child Health Block Grant	7,131,000	5,429,000	16,584,000
Women, Infants and Children Food Supplement	23,437,000	21,262,000	
Medical Assistance	383,969,000	439,200,000[2]	N/A
AFDC	134,889,000	137,904,000[3]	N/A
Prevantive Health Block Grant	2,450,000[4]	2,138,000[5]	2,138,000
Alcohol, Drug Abuse & Mental Health Block Grant	3,820,000[6]	3,553,000[7]	3,585,000
Education Aid for Disadvantaged	39, 105,000	31,284,000	24,636,000
Education Aid for Handicapped	18,525,000	14,079,000	15,190,000
Vocational Education	11,927,000	10,975,000	8,655,000
Education Block Grant	5,427,000	7,634,000	6,718,000
Other Education Programs	4,400,000	24,000	20,000
Child Nutrition	72,632,000	52,247,000	48,931,000
Impact Aid	4,512,000	3,122,000	2,173,000
Emergency School Aid	436,000	0[8]	0
Indian Education	1,800,000	1,800,000	1,544,000
Bilingual Education	720,000	518,000	436,000

[1]Congress has authorized $2.4 billion for Fiscal Year 1982 through 1985; however, monies have not been appropriated to date.

[2]This level is $8.1 million less than anticipated.

[3]This level is $16.9 million less than anticipated.

[4]Rescissions in constituent program areas reduced funding from '81 appropriation by $539,563

[5]Dedicated funding of $53,000 for a new rape program is included.

[6]Rescission in alcohol and drug funding was $1,179,000.

[7]Reflects decrease for both Mental Health and Drug and Alcohol Programs.

[8]Included in the education block grant allocation.

Senator DURENBERGER. Our next panel will be a panel of four witnesses on the subject of human resources and the New Federalism. They are Robert Greenstein, director of the Center for Budget and Policy Priorities; Barbara Kaufman, executive director of the Minnesota Association of Voluntary Social Service Agencies; Mike Fargione, director of litigations, Mid-Minnesota Legal Services Association; and Earl Craig, president of the Urban Coalition of Minneapolis.

If all four of you will come up and be seated, I'd appreciate it. I'll just make a few brief comments. We have held hearings in Washington by the subcommittee on the impact of these proposals on human resources—human services, the delivery system. There is a recognition of the Federal responsibility in the broad area of income security, as we have discussed all day today.

There are three basic questions surrounding this issue that need to be resolved. That is, what is the income security policy of the country; who is going to pay for income security programs; and who is going to administer the programs? It doesn't always happen to be all one level or one institution answering all three of those questions. There are doubts that the current mix is working well between the various levels of government. There certainly are doubts as to whether or not the Federal Government is the best administrator of income security programs.

So, hopefully, in the panel assembled for this hearing today, we will get some idea about whether the Federal institutional arrangements and the delivery system that we explore can meet human needs in the context of a New Federalism.

We will start with people in the order of introduction. Bob Greenstein, founder and director of the Center for Budget and Policy Priorities, has testified before the subcommittee once before. I see his name more and more in newspapers now. He was the administrator of Food and Nutrition Services for the Department of Agriculture during the Carter administration. In that office, he was responsible for the food stamp program and child nutrition programs, including the school lunch services. He's also been the chief lobbyist for the Community Nutrition Institute in Washington, D.C. He's a native of Philadelphia and a 1967 Harvard graduate. He is currently a resident of Washington, D.C. Bob, welcome.

TESTIMONY OF ROBERT GREENSTEIN, DIRECTOR, CENTER FOR BUDGET AND POLICY PRIORITIES, WASHINGTON, D.C.; BARBARA W. KAUFMAN, EXECUTIVE DIRECTOR, MINNESOTA ASSOCIATION OF VOLUNTARY SOCIAL SERVICE AGENCIES, ST. PAUL, MINN.; MICHAEL FARGIONE, DIRECTOR OF LITIGATIONS, MID-MINNESOTA LEGAL SERVICES, MINNEAPOLIS, MINN.; AND EARL D. CRAIG, JR., PRESIDENT, URBAN COALITION OF MINNEAPOLIS, MINN.

Mr. GREENSTEIN. Thank you, Senator. Because the subcommittee has been so gracious in allowing me to appear to discuss these issues with you, I would like to focus today on a few things about which

we haven't talked before or which are relatively new developments in the federalism area.

What I'd like to talk about, perhaps the most, are the proposals now being discussed to retain food stamps at the Federal level and to turn AFDC back to the States. One introductory observation I'd like to make is we have talked before about the fact that one of the reasons income security is generally viewed as needing to be a Federal function is because of the increase in income security needs during periods of economic downturn, when the States' economic bases and States' revenue bases are the weakest.

Recently, I was in a seminar where some demographic data from the Department of Labor were presented showing the projection that there will be a very substantial increase during the 1980's in the number of women in the labor force. I have not had an opportunity to research it, but it raised a question in my mind which I hope in future weeks to discuss. That is, whether the AFDC program will become more responsive, whether its costs will go up and down more during the 1990's in response to unemployment than it does at the present.

We know currently that the food stamp program has more of a swing in that area than AFDC. To the degree that the AFDC response to unemployment increases, that would pose greater problems for turning AFDC back to the States. It would be more difficult for States, experiencing economic downturns, to deal with these needs when it came up to an unexpected increase in unemployment.

What I'd really like to talk about most today are concerns about the structure of having food stamps 100-percent Federal and AFDC 100-percent State. From my own experience in administering the food stamp program, one of the factors in recent years that caused food stamp costs to go up more than had been anticipated was that as AFDC costs fell farther and farther behind inflation, it caused a greater increase in food stamp costs, because the AFDC benefits were low.

When we talked earlier, I expressed a concern that, when each AFDC dollar no longer brought in one or two Federal AFDC dollars, it became 100-percent State money. That could lead to, and I think would lead to, many States putting AFDC in a weaker position than it has been in the past in competing with other interest groups in the State. It has never had to compete as a 100-percent State-funded program.

The structure of having food stamps 100-percent Federal and AFDC 100-percent State will aggravate this problem. It creates an incentive for States to keep AFDC payments at a lower level. The argument will readily be made—

> Here, if we increase AFDC benefits or simply adjust them for inflation, each dollar in AFDC benefits not only brings in nothing, but the Federal AFDC benefits is what causes a decline of 30 cents in Federal food stamp benefits.

My first reaction is from my experience in those years when, after we eliminated the purchase requirement—in the days before there was a congressional hearing to look at our latest food stamp estimates—I used to be afraid to go up and explain that, "Yes, we had to raise the cap and face Senator Helms on this." My first thought was, "My

God! What is going to happen if food stamps are 100-percent Federal, and AFDC is 100-percent State?"

It is a very strange structural relationship when you count benefits in one program against the other, when you have two totally divergent entities, each responsible for 100 percent of the funding. I think that also has adverse implication for recipients, because when AFDC benefits don't go up with inflation, even though food stamps benefits do, it only makes up 30 cents on the dollar. The combined benefit in real terms falls. We know that the combined benefit has fallen sharply in the Nation as a whole in the past 10 years.

Finally, I have a concern that the last thing in the world we want to do is shift our mix in income maintenance so that a larger percentage of low-income people's basic benefits are in food stamps and a smaller percentage in cash. We know from our experience in Puerto Rico and in the deep South that, if too large of a percentage is in a benefit like stamps and there is very little cash, it creates a very great incentive for black market. The family has all stamps and no other cash. Again, I have a concern that this kind of a split leads to, or could lead to, that kind of a situation.

My concerns are the data which we have discussed in the past. I won't repeat how the AFDC benefit levels have fallen behind and how the disparity has grown between the South and the North, other than to mention one new fact that I've become aware of since I last testified before the subcommittee. That is, the Department of Health and Human Services has now updated its AFDC benefit comparisons through 1981. Their data shows that from 1969 to 1981, in constant dollars, the average AFDC benefits have fallen. The figure is now up to 29.4 percent, a very large and very disturbing figure.

So I just have a fear, both in simply turning AFDC back and in leaving recipients to fend for themselves with 100-percent State dollars and with this food stamp interaction. It seems to me that there are two responses which have been offered, in a sense, to this—one by Governor Snelling and one by yourself.

On April 20, Governor Snelling sent a telegram to the States in which he raised the possibility of the Governors considering turning back AFDC with two additional features. His two new features were: One, that food stamp benefits would not be reduced. Essentially, AFDC wouldn't be counted as income against food stamp benefits until the combined level reached the poverty line; and, second, that there would be, what he called in his telegram, a safety net supplemental assistance fund to be provided to those States that have problems with providing adequate AFDC payment levels.

There are also several problems with these suggestions. The more you think about them, the more they concern you. The Snelling proposal for not counting AFDC against food stamps until the combined level reaches the poverty line would have virtually no impact at all on the low-payment States in the South. In a State like Mississippi, the AFDC payment is so low that when we subtract out the food stamp deductions, there already is no countable income. So, it wouldn't increase the combined benefit at all in Mississippi or Texas, or very marginally in Georgia and Arkansas. It would make a major increase in the States that already have more adequate payments.

In other words, where the combined benefit level is now 75 or 80 percent of poverty, it would be increased to maybe 90, 95, or 98 percent poverty; or where the combined benefit level is 40 or 45 percent of poverty, it would either stay the same or only go up 1 or 2 points. In fact, if nothing else is done to deal with this, it would widen the disparity between the high-payment States and the low-payment States. Now, let me make it clear at the same time that it would play an important role in providing more accurate income for recipients in some of the States with higher payment levels now, though it would do little in the other areas.

The safety net supplemental assistance fund, if geared to States with fiscal capacity problems—as I understand it would be—would again not do anything to resolve the low-payment problems in Texas, Louisiana, and Arkansas. These States pay very low benefit levels but really don't have fiscal capacity problems.

Finally—and I'd like to believe I was wrong here—I find it hard to imagine that Mr. Carlson, or other people in the White House, would ever consider excluding AFDC benefits from the income calculation at an increased cost of several billion dollars in food stamp benefits. It's a very interesting proposal, but I find it hard to imagine it being taken seriously.

As we discussed earlier, one could combine that with a minimum benefit level. I'm still unclear how the floor would work, because in your proposal and discussions it could be very regional. We have the kind of problem in this country that two States next to each other have benefits that vary by 25 or 30 percent. If you have enough of a benefit to keep one of the costs up slightly, the one next door could still lower the benefit payment by 10, 15, or 20 percent.

I guess I end up still being very troubled about how to structure an AFDC turnback that does not cause new structural problems, especially with food stamps remaining all Federal; and how to assure that AFDC recipients do not fall even farther behind than they have the last 10 years.

Unless some new mechanism is put together that solves this and is acceptable to the White House, it continues to seem to be that income security programs need to remain a Federal responsibility. While we need to go forward with federalism, the programs that go back to the States should not be those from the income security part of the Federal budget. Thank you.

Senator DURENBERGER. Thank you, Bob.

Our next witness is Barbara Kaufman, executive director of the Minnesota Association of Voluntary Social Service Agencies. She was with the State department of social services for 15 years before that. She has a master's degree in social work and specializes in the delivery of human services. She has her own personal and relevant experience and background to bring to bear. For example, she herself was an AFDC recipient for 3 years from 1963 to 1966. At the time she was a college student and mother of four children. Barbara?

Ms. KAUFMAN. Thank you, Senator. Everyone has trouble with that name. That's why we say MAVSSA most of the time. I really appreciate the opportunity to speak today to the President's proposal to turnback human services to the States through New Federalism.

As executive director of a coalition of private social service agencies, I talk to people all over the State who are in the business of delivering social services. In Minnesota, there is a longstanding tradition of cooperation between private agencies and public agencies. Many of the thousands of clients of public service agencies are given services also through private agencies, through purchase of service contracts and a number of different kinds of arrangements.

I'm sure, too, that I can speak today for many of the other lay and professional people who have real concerns about the needs of people in Minnesota who are counting on these human services.

The basic premise of the Reagan proposal is to withdraw the Federal Government completely from human services. Granted he suggested doing this gradually, and he proposes a trust fund that will last for a little while, but the goal is unmistakable. Reagan believes the Federal Government should not participate in either administering or funding human services.

Who are the people who get those services, though? I think we all know some of them. There are abused and neglected children and adults, mentally ill and mentally retarded people, children in foster care, children who need adoptive homes, runaway youths, migrants, the working poor, the chemically dependent, pregnant women and their infants, and people in need of job training and vocational rehabilitation.

The services these people get are not what I would call frivolous services. Abused children are entitled to protection. Hungry families ought to be fed. Fuel assistance in Minnesota, it goes without saying, is a necessity. These are the programs that the current administration proposes to throw back entirely on State and local resources—if not now, then at least 5 years from now. This is not block granting. It looks more like an abdication of all Federal responsibility. We feel that the abdication is simply not justified.

The needs being met by these services are not just State or local needs only. They're national in scope. The problems are far beyond the reach or the control of any single State. Unemployment on the Iron Range is tied to the problems of General Motors and of the steel mills of Pennsylvania. High interest rates are not a product of the Minneapolis banks, no matter what we might like to think. Other problems like alcoholism and spouse abuse have definite ties to unemployment and its stresses.

We find the Reagan proposal really unacceptable in this basic philosophy. Human problems and human needs are a national reality, and not just a State reality. That makes it a national concern, which is not to imply that State and local governments have no role to play or no responsibility to care. We feel it's wrong for the Federal Government to abandon citizens in need.

The question that comes to mind, first, is the funding question. If the Federal dollars coming through a relatively progressive income tax are withdrawn, then the funds must be supplied—if they are to be supplied at all—through the more progressive dollars available to State and local governments, like the sales tax and the property tax.

This presupposes that States and counties will be both able and willing to provide those additional dollars. I'm sure I don't need to go into the fiscal realities in the State of Minnesota. I have heard other

people doing that at length. Neither our State nor our counties have lots of money lying around to throw at anything, and it doesn't look like we are going to have any in the foreseeable future.

I see another difficulty in terms of disparity among the States. Some States have lots of resources, like Texas. I wish we had lots of resources, too, but we don't. Our peat resources have not yet been developed. At least, this means that it's not really fair to expect each State to shoulder the same kind of burden. I think that whatever money coming from the Federal level ought to be apportioned with an idea of equity among the States.

The child welfare statistics show that those States with high unemployment and more adequate welfare programs will be hit harder than the States where unemployment is low and welfare programs are less adequate. We all know that there are States with less adequate welfare programs. People in the Northeast and Northcentral States are going to get hurt more.

The question about who should administer human services also involves equity, particularly equity for the people needing those services. I think that, in the long run, the President's suggestion may lead to a State-versus-State struggle to minimize those human services costs. That may include a return to residency requirements within the States and maybe the old-fashioned custom of giving welfare clients a bus ticket.

There is a case to be made for establishing national program standards. Foster care I think is a good example. Congress passed Public Law 96–272, the Foster Care and Adoption Assistance Act, 2 years ago. That is a national policy on foster care. Before that act was passed, there were tens of thousands of children in foster care around this country. Nobody knew where they were or what was happening to them. The average stay was 5 years for each child. That's a long time for a kid to be without a home.

Congress finally set standards for foster care. They included regular reviews of children in placement, a plan and stated set goal to reduce the number of children in foster care, a permanent tracking system for those children, and Federal money to subsidize adoptions.

In Minnesota we already had some of those safeguards in place. This has resulted in a now completed, statewide inventory of all children living outside their own homes. We've got the beginnings of a tracking system and a substantial increase in the number of subsidized adoptions. This has happened in Minnesota. The number of children in foster care is declining—7,500 this year. It was 1,000 more last year.

Another case in point is the enforcement of title VI of the Civil Rights Act. In 1978 when the General Accounting Office reviewed the implementation of title VI in child welfare programs around the country, they found that minority children stayed in the welfare system longer than white children, and they got less attention. So the child welfare systems of the States were really not being very equitable in their treatment of blacks and whites. Now, are the State systems really more likely to treat those children equitably without Federal monitoring? Is it not the responsibility of the Federal Government to insure that kind of equity? Whatever the failures of the present system, it is very unlikely to be more equitable without Federal intervention.

I'd like to mention a third example—the women, infants, and children's program (WIC). Its provision of milk and infant formula and cereals has really amounted to a demonstrable savings of $3 in health care costs for every $1 in food costs spent. It works; so everybody likes it. But it is a prevention program, and prevention programs are very hard to sell. I don't think we will find a WIC program in all 50 States, if it's left up to the 50 States, regardless of the worth of that program. I don't see where we can find a more essential goal than the health of our children.

We feel that in areas such as employment, training, child welfare, nutritional programs, and basic health care, it really is the responsibility of the Federal Government acting through Congress to establish national standards. These issues are too important to be left to 50 different States, some of which are not going to be what we would think of as adequate.

There are four other points in terms of Federal standards that I would like to touch on briefly, because I think they're essential to programs for people. No. 1: A requirement that there be no discrimination on the basis of race, religion, sex, age, national origin, or handicap. No. 2: A limit to the allowable administrative overhead costs. I was really appalled to see some of the block grants come out with no limits at all. No. 3: A requirement that there be some input from people, particularly from clients, in terms of planning and priority setting for public programs. And No. 4: A requirement that State and local governments provide a workable appeal process so that when inequities occur, they can be corrected.

We really cannot support the Reagan proposal as proposed. It fails to meet the basic tests of equity and fairness. I really thank you for the opportunity to speak to this proposal, because I am very reassured that Congress is taking a careful look at what has been proposed. I hope that the questions of equity will not be overlooked when something is to be done about it.

Senator DURENBERGER. Thank you very much. I want to inform everybody that your full, prepared statements will be made part of the record if you don't get a chance to complete them.

Our next witness is Mike Fargione, the director of litigations for Mid-Minnesota Legal Services in Minneapolis since 1980. He is a graduate of Yale Law School. He has been active in representing low-income families, especially those receiving medicaid or AFDC assistance since 1972. He is particularly interested in, and will direct his remarks today to, medical assistance. He serves on the board of directors of the Comprehensive Services for Disabled Citizens and on the Board of Accessible Space, two nonprofit organizations that focus on the needs of the handicapped.

Mike, welcome. Your friend, Tom Hawkins, said to say hello to you. You may proceed.

Mr. FARGIONE. Thank you, Senator.

I appreciate the opportunity to be here. As you mentioned, my experience in representing low-income individuals in Minnesota has been primarily with AFDC and medical assistance. I will direct my comments to those two programs.

I'll begin by agreeing with Lynn Cutler's observation that, at least as administered in Minnesota, these are pretty good programs. They

serve a number of people. The people who administer them, certainly in Minneapolis, are sensitive and apply the law fairly to the best of their ability. They're not programs because they have failed to be replaced. They are programs which could be improved. This should be looked at in some detail.

I'd like to begin with a few preliminary comments just on the basic data of what is already existing in Minnesota. Aid to families with dependent children (AFDC), according to the data we have from October 1981, was serving 45,000 families in this State—approximately 135,000 individuals.

A typical family is a single parent, generally a woman, with two children. In the month of October 1981, we spent over $16 million providing services to these families. That works out, for a family of three, to be an average grant of $345 per month. So, it's not a substantial amount of money that's being given to any one family. However, because there are so many families, the $16 million cost was incurred in 1 month—in October 1981.

When we deal with medical assistance, we're not only dealing with 135,000 individuals. We're also dealing with an additional 40,000 elderly people and 25,000 people who are totally disabled and, thus, qualify for the program. That's a total of over 200,000 people in Minnesota who are receiving medical assistance. These figures come from the data for October 1981, but the numbers remain fairly constant. In that 1 month, we spent $67.5 million in providing medical assistance benefits. $45.5 million, about two-thirds of the total money spent on medical assistance in Minnesota during that month, was for long-term care. That's the vast majority of the money, and that remains a constant figure.

With respect to growth, as Mr. Greenstein indicated, AFDC has not been a program which has grown substantially. We know that it's been cut by approximately 25 percent due to changes which were enacted in 1981. If no further changes were enacted in AFDC and if the budget cuts projected for this coming year were not enacted, it would remain true, according to the administration's projection for 1987, that we would spend about the same amount as we spent federally in 1972. Over a 15-year period, both for 1972 and for 1987, AFDC would cost about $6.9 billion on the Federal level. It's not a program that has experienced a lot of growth, especially with the recent cutbacks. There have been increases, but we're pretty much at the level we were 10 years ago. Now, we're a little bit below that level.

Medical assistance does not have the same characteristics as it used to have. The medical assistance program has grown an average of 16 percent since 1975. In 1981, according to the administration's figures for both medicaid—which is medical assistance in Minnesota—and medicare, the program growth was about 21 percent just in 1 year. So, we're talking about a program which has grown rapidly. We're talking about a program in which the poor people of Minnesota do not receive any money. The money goes to the medical professions that provide this needed service to 200,000 people in Minnesota.

I might note that the projected cost of medicare for 1982 will total the Federal budget for AFDC. That is, the cost increase in 1 year for that health program will total the AFDC budget. So, when we're

comparing the two programs, medical assistance poses a much greater fiscal problem to the Federal and State governments than AFDC does. AFDC has not been that great of a burden over the past 10 years.

I'd also like to clarify the terminology, if I could, which has generally been used to characterize the administration's proposal. We talk about a "swap" of AFDC and medical assistance. I don't think that's really an accurate word. A swap would be, "if I have a horse and you have a horse and we want to trade." What the administration proposes is sort of a system where we each have a horse. "We have two horses, let's kill them both, and we'll see what else we can come up with." That's not a swap.

If we need a cliche, what we're doing is buying a pig in a poke. We're getting rid of AFDC. God knows what we're replacing it with. The administration certainly has no control over that. We may have 50 programs which are good. We may have no programs which are good. We don't know what we will get to replace what we have. The administration has a reason there, because they're delegating that to the States. So, the administration could not be expected to know what would replace AFDC.

Medical assistance, on the other hand, is being federalized. You might expect the administration to know what the new program will be; but, even there, we don't know. There has been no specification what the program will be. So, basically, the administration's proposal is to do away with one program which was created in 1935 and another program which was created in 1965, and create something different. We don't know what that different thing will be.

Specifically as to AFDC, we can't comment on whether a new program will be better, since we don't know what a new program will be. We can't say that title 4 of the Social Security Act will be abolished, because we don't know what will replace it. It's not a swap. I think it's even inappropriate to call it New Federalism, because there will be no Federal relationship with the States. There will be no Federal standards. There will be no Federal money. It's more appropriately called "No Federalism."

This is a State problem. We would be back to where we were 50 years ago, in the early 1930's, before the Social Security Act was enacted. I don't believe that that's an appropriate response to the needs of the 45,000 poor families in Minnesota. I would certainly agree with Governor Snelling that the basic starting point for talking about this program is to say we need a Federal standard, and we need Federal backing to insure that that standard is met.

It's not at all clear that the current system of administering it could not be improved upon. First we have to get the administration to accept the basic principle that a Federal standard is needed, rather than the current proposed system which would simply eliminate AFDC. Once we agree on that principle, we can begin to debate on what the most effective delivery system would be.

The administration's proposal with regard to medical assistance, medicaid, is different. This is to be federalized, but we need to understand what the options are. We have to really look at the specific proposal or the specific program which we already have. Who is covered by the medicaid program? It's low-income children, elderly, blind and

disabled people who have low incomes. We have two different groups within this general category of people. One group the State has to cover; they are called "categorically needy." The other group the State has an option of covering. These are other children, elderly, blind, and disabled persons who are not so poor that they automatically qualify but they have medical needs which are met by the program. They are called "medically needy" in the jargon of the Federal regulations.

In Minnesota, only 20 to 25 percent of the recipients of medical assistance are medically needy. However, because most of these people are in long-term care facilities which are costly, more than 50 percent of the money we spend in Minnesota goes to people who are called medically needy—that is, people who are not required to be served at all under Federal law.

What services are provided? There are about five services within the initial medical assistance program which are mandated by the Federal Government. There are a dozen more that are optional. Minnesota does provide the optional services. Again, approximately 50 percent of our expenditures are for optional services.

What are the costs? The administration said that by federalizing medical assistance, the States would save $19.1 billion. It's already true that if the States wanted to not participate in medical assistance, to just abandon the program, they could save $19.1 billion. That's what the program costs. Obviously, you don't know how much money you're going to save unless you also talk about what services are provided. We could save $19.1 billion by providing no services. Once the administration tells us how many services are going to be provided, then we can know what the savings are going to be.

If, for example, the administration created a Federal program which served only those people who are now called categorically needy, it would cost Minnesota more to provide the same services than it does today. If they covered all the people—both medically needy and categorically needy—but only provided mandatory services and not the optional services, it would cost us more to provide the same services under this turnback.

Obviously, we're not generating new revenues for the States to serve new children or anyone else. It will cost more to provide the services we have today if the administration chooses either one of those options. I think the most ironic thing about the proposal is that the services most at risk, some of the optional services like attendant care and home health care, are necessary to keep severely handicapped people in their own communities. These are optional programs, and these are the ones most likely to be eliminated. Yet, these are the ones which are the most cost effective. These are the ones where the State and local governments have the greatest creativity in finding options that could be paid for under medicaid. They would be cost effective programs and would better serve the needs of Minnesota residents.

I will conclude by again agreeing with Governor Snelling's basic supposition that we need a Federal base. We need a Federal basic standard of what services are necessary to maintain health and human dignity in the State. We need Federal funding for those. We need a guarantee that the services we're going to provide in Minnesota can be financed by generating savings for the State. In other words, that

the Federal Government is going to take over a program and pay more than it does now on a percentage basis; that it will pay 100 percent of the needs of certain services; that the savings which are going to be generated are sufficient so that Minnesota can be held harmless and can, at least, maintain its current effort in programs which have been effective and which have reflected the State's greater sensitivity to the local needs of our residents. Thank you.

Senator DURENBERGER. Thank you, Mike.

Our last witness is Earl Craig, president of the Urban Coalition of Minneapolis since 1975. He has been a Minnesota resident since 1961. Earl has been active in quite a number of civic and voluntary associations. He was a Democratic National committeeman from 1972 to 1980, as well as the first chair of the Black Caucus of the DNC. He also serves on the board of directors of many groups, including the Federal Home Loan Bank of Des Moines, the National Steering Committee of the Conference on Alternative State and Local Policy, the Citizens League, the Spring Hill Conference Center, the Minneapolis Chamber Symphony and the Greater Minneapolis YMCA.

Prior to becoming executive director of the Urban Coalition, Earl was acting executive director of Northside Settlement Services. He also taught at Carlton and the University of Minnesota.

We appreciate your being here.

Mr. CRAIG. Thank you, Senator. I appreciate the invitation to be here with you and Professor Naftalin. As you indicated, I'm president of the Urban Coalition of Minneapolis, which is a private, nonprofit research and advocacy organization. Our constituents are poor people and communities of color.

Because we see a continuing decrease in public resources for poor people over the next generation, the Coalition has focused in the last few years on the importance of restructuring State and county services. It is clearly in the interest of poor people to have services delivered more effectively than to merely cut programs or restrict eligibility.

Our premise has been that the public sector must maintain its historic commitment to disadvantaged people. However, the way in which that commitment is fulfilled should be subject to extensive scrutiny and innovation. Let me underscore, Senator, that the fundamental commitment must remain unchanged. This is where the Urban Coalition and the Reagan administration clearly part company.

Under the guise of reforming who does what at the various levels of government, the administration has proposed a New Federalism which basically undermines the ability of government to assist people with the greatest needs. The welfare "swap" in particular must be rejected.

Poverty is a national problem. Poverty is rooted in national economic and social conditions. It requires a national response to insure equitable access to a minimum standard of living for all Americans.

Welfare expenditures are inversely related to the health of the economy. If the economy is down, the need for welfare is up. State revenues, on the other hand, are directly related to economic conditions. There is a discontinuity here which would jeopardize the ability of economically distressed States to provide for the survival of the poorest residents if it were solely a State responsibility.

I find it most revealing that the Reagan administration kept for itself the politically popular constituency—the aged and the disabled—while assigning the States responsibility for welfare and welfare recipients. It is a great political deal for the administration. It all contributes to my view that the administration's intentions in the New Federalism are disingenuous with respect to the poor.

Even if the administration's intentions are sincere, the risks for the Urban Coalition's constituency of poor people are still too great. The current alinement of public responsibilities has resulted in major strides forward for low-income and minority people. Until the economy plunged in 1980, less people were poor, fewer people were hungry, more people lived in decent housing, and fewer babies died because of low birth weights.

In simplest terms, poor people are being asked to trade these and other gains for 50 new throws of the dice, in a crap game where the poor are being forced to put up all the stakes. As a spokesperson for the poor, I simply can't make the leap of faith required to endorse a set of reforms where the poor are the primary, if not the only, risk takers.

At this juncture, I have changed my speech slightly based on a report of Governor Snelling's comments this morning to respond to three points. Those points were: One, that racial minorities are better represented in State legislatures than in Congress. Two, that poor and racial minorities, like all special interests, are never satisfied with legislative outcomes. And, three, if the poor are not happy, there is recourse to the electoral process.

Taking these in reverse order, first, it is true that the poor have recourse to the electoral process. Their relative political weakness is partially a result of low voter participation, and their low benefits from the legislative process are probably their just deserves for not voting. However, remember, in numerical terms, poor people are not a powerful political constituency. They represent less than 15 percent of the Nation's population. Racial minorities are just that, minorities.

Second, it is also true that the poor people special interest will never be satisfied. But, two comments: The interests of service providers for the poor, who do most of the legislative lobbying, are not necessarily synonymous with those of the poor people; and neither group has done very well lately.

Third and most important, even if racial minorities have more representation in some State legislatures than in Congress, that is not the same as saying that poor people do. If that is so, it is irrelevant. Poor people under the New Federalism will have to contend in three interrelated but distinct contexts. First, they are a minority in a population majority which consistently says that the place to cut public services is welfare. Second, benefits and services for the poor must compete with many other State services—schools, roads, aging, infrastructure, economic development, and the list goes on. And, third, there is competition among the 50 States for business. The 50 States compete for investments and jobs. In the long run, poor people in the winning States will benefit from more jobs. However, in the short run and in the losing States, poor people cannot help but suffer.

Aging infrastructure will be improved. Taxes will be kept at current levels or lowered. Supportive services for businesses and nonpoor

will be maintained. What will be reduced is support for job training for the structurally unemployed, for new housing supply, for day care, and for mass transit for poor neighborhoods.

In all three of these contexts, regardless of the number of legislators of color, poor people cannot win. When the majority of nonpoor people express their will to their State legislators, no legislature in the country—none, I maintain—will significantly cut services for the nonpoor to increase or maintain them for the poor. And none, no State legislature, will raise the additional taxing capacity offered by the New Federalism and risk losing its competitive position with other States. Without disparagement of the compassion of anyone, the poor are in an absolute no-win situation.

Having said all this, Senator, let me slightly ajar the door to some shifting of responsibilities. In reviewing the turnback programs, I find room for sorting-out Federal and State responsibilities in areas like education, transportation, community development, and health and nutrition. But along with increased responsibilities must come adequate resources to implement programs at the State level. If the turnback of program authority is to occur without these destructive forms of competition emerging, much more attention must be paid to the ways in which adequate resources are also to be returned.

In addition, there must be continued involvement of the Federal Government in setting minimum standards for services that are judged as providing for the basic needs of the poor.

Reform which encourages uniquely local responses to problems and provides adequate resources is desirable. Reform which places program authority with State and local officials but fails to provide the wherewithall is no reform at all. It's just budget cutting at the expense of the poor.

Let me conclude by saying that I'm convinced that New Federalism, Reagan style, does not benefit poor people. I have yet to see the alternative that does. Yet, I'm willing to keep listening. I will close with a quote from a man with some solid Republican credentials, Abraham Lincoln, "I shall adopt new views so far as they appear to be true." Thank you, Senator.

Senator DURENBERGER. Thank you very much.

Bob, let me start with you.

If we were to divide the income security area into two kinds of programs—first, income maintenance; and, second, social services—for purposes of trying to sort out how best to approach this subject, the first program—the income maintenance—is clearly the one that supplements the purchasing power of low-income persons in some fashion. We have food stamps, medicaid, and AFDC as an illustration of that.

On the other side, we have the education and training programs and a variety of other programs. Many of these programs have, around them, the cadre of well-trained organized professionals, such as social workers, who can effectively lobby on behalf of these programs. If I weren't here, I'd be in Washington, and that well-organized cadre would be down there lobbying on behalf of a variety of the social services programs.

If I'm correct that we can split our consideration of income security in this way, is it fair to say that social service programs might fare

better at the State level than could the income maintenance programs, as a general rule?

Mr. GREENSTEIN. Let me try to give an answer. I think, in part for the reasons you've said, services are less unpopular than welfare and have a more intermediary constituency in the form of service providers. I think that they would probably fare better, relatively, than straight income maintenance programs would.

I think that the income maintenance programs—those that directly affect purchasing power—include more than AFDC, medicaid and food stamps. If we use the Budget Committee's classification of function 600—what they call income security—we find other programs that are included in the turnback part which are really straight income maintenance programs, like energy assistance. In many ways, the child nutrition programs really relate more to benefit programs than the purchasing power programs and the servicing programs. The WIC program is much closer to the food stamp program than to service programs. There is a voucher worth about $28. The foster care program, which is—until recently—really a subpart of the AFDC program, is really a payment program. I think that the same kinds of concerns would prevail in those, in that they would need to be considered part of the income maintenance programs.

In the service area, I think there still are two types of concerns. The first is that, in most States, there has not really been an issue in recent years where the service providers have had to compete, to a great degree, with the highways lobby, teacher salaries, or things of that sort because most of the money came from Federal allotments. In a time of budgetary stringency at the State levels, it remains to be seen, still, how well service would do. I think there still is danger.

The second point is one I find of greatest concern. That is, one of the things that we've really got at the Federal level, and I think we didn't have in many States, is the targeting of the service programs, the income maintenance programs. If you took some of these programs, there is a considerable risk, given the greater power of middle-class citizens who also benefit from these services by getting some of the pot. Some of the funds get shifted away from the low-income population toward the lower- and middle-income population. I think it's true that the Federal Government works better. This has been much more true with the middle-income groups than with the low-income groups. There is that concern.

The last point I want to make is, when you look at title 20, you find that, up until recent years, the block grants which gained a number of the same States in the South with the lowest payment on their worth didn't make the State requirements in title 20. That raises the concern that, if all dollars become State dollars, what happens to the services, particularly in those States? We have a lot of poor black families.

Senator DURENBERGER. I want to stay on this point. I keep picking on you because you're from out of town, I guess. However, the others can certainly react. I am impressed with the figure you gave us about the 1969 versus 1982—29 percent decrease in the real dollars in the AFDC program.

I think most of us have the impression that, over this period of time, we have substituted a variety of service systems for cash programs where we have found ways to undergird providers. You're right. Those

kinds of social service providers were not really in much competition with highways or something else. As a matter of fact, they weren't really in real competition with each other.

One of the things this says to me is that, perhaps, we ought to put service deliverers in competition with each other at the social services level by updating the cash systems for the poor. Then social service delivery won't become something that the middle class can afford to buy into or contribute into. That may have been one of our problems over the last 10 to 12 years. We have sought to give providers some combination of Federal and State dollars, rather than continuing to rely on the good judgment of those in need to make choices among providers.

Could you discuss that issue a little bit?

Mr. GREENSTEIN. I guess I feel that, to a degree—one needs to say "to a degree"—I would favor the directing of more funds into income maintenance. I think even with food stamps, energy assistance, and so forth, the family on food stamps and AFDC today, in real dollars, is behind where it was in 1969. It has energy assistance, but the energy assistance doesn't offset the full increase in energy costs. So that—while it's popular to talk about the various income maintenance programs—to the degree that people have AFDC and food stamps, they really are behind. I think that is a real concern.

When there is talk about expanding entitlements in the budget discussions in Washington, the thing I keep thinking is we need to talk more about the fact that we distinguish them separately—the means tested and the nonmeans tested entitlements. By and large, it's the nonmeans tested entitlements, by far, where the biggest dollars—three-quarters, or 80 percent—of the entitlement moneys are, but it's also where the most rapid rates of growth are.

I would say, though, that the kind of model I like is the part of the Federalism proposal—actually, one of the areas where I'll find something kind to say—where they make a distinction in education. They kept title I as a Federal program for the disadvantaged and sent back the State and local education block grant. To me, that is precisely the type of division I would like to see in the service areas as well. It seems to me that there are many Federal programs which are not targeted to the low income, which are not proportionately directed to the minorities who were never included in the administration's Federalism proposals. I would like to see us put more of those programs in and less of the program services—as well as more income maintenance which are the means tested and those targeted to the poor programs.

Senator DURENBERGER. Would anyone else care to comment on this issue?

Ms. KAUFMAN. I think that you would find, Senator, that most of the private agency people, with whom I deal, would be very much in favor of the idea of putting more money in the hands of people in giving them a choice of vendors. That's been a principle that's been around for a long time. It's part of the whole background of dealing with the public agencies, to try and give those people a choice.

When you talk about social services being more popular than welfare, if you talk in general terms, I'd have to agree with you. Nobody likes welfare; it's dirty. However, if you look at social services more carefully, I think you will find that some social

services are a lot more popular than others—for example, chemical dependency treatment. In Minnesota there is a mandate that all counties must offer some detoxification services. The law says so, and there are a lot of county boards that do a lot of grumbling about that. They would like not to have to do that, because they really think that detoxification is best done in jail. I would not call that a popular social service.

I think you can run down the list. Certain services are seen as very nice services; other services are really seen as not so nice. I don't think it's quite enough to say that social services are all in a lump sum, any more than one ought to say the need for services is determined in one place.

There are some services where a family decides themselves that they need it, that they want it. A mother wants to go to work, and she needs day care. She wants that service. But I don't know too many families who like child protection services, when the social worker comes in and intervenes because they've been abusing the kid. That's not a very popular service.

Senator DURENBERGER. Let me move on to something that's related—employment and training, particularly for the structural and so-called hardcore unemployed. I personally feel that's a subject, in terms of financing, which ought to be dealt with at the Federal level, because unemployment is so closely tied to income security issues. My predecessors put together the CETA program back in 1972. This administration proposes to do away with it, or replace it with unemployment and training block grants with some focus on the private sector. They also propose to eventually turn it all back to the States.

I just wonder if, based on your—what I understand to be—rather extensive experience in this area with the CETA program, you would react to the appropriateness of the administration's recommendations.

Mr. CRAIG. I think, Senator, that there are probably two main areas among those proposed to be turned back to the States which are just wrong, and there are a lot of others. One is employment, and the other is housing. I think both of them have some similar aspects. One, they are much more sensitive to national economic interest rates and other kinds of factors. Second, the costs involved are just so great.

As you know, in this State, the McKnight Foundation is providing jobs for a very short time. It's not training; it's just trying to help people get income—$2 million. That gives 400 people jobs at $4.25 for 6 months. Well, it is arguable whether you ought not give people that money to get training as a long-term solution. It's a fact of life, however, that you've got to have some ways of encouraging people who have given up today.

So I think that the costs involved, coupled with sensitivity to national factors, means that that's going to have to continue to be a Federal responsibility. Second, it seems to me that to say that does not mean that one has to defend the CETA program which we have now.

You can have a continuing Federal commitment of dollars. You can have a continuing Federal commitment to paying people to work. You can have a continuing Federal commitment to train people. You can have a whole set of these kinds of principles without having a commitment to the present delivery system. We have mixed up criticisms about

the delivery systems with criticism about commitment. It seems to me that critics have used problems with the delivery system—whether they are used by local governments receiving CETA funds to deal with their fiscal problems, or mismanagement or fraud; or any of them—as a part of their ammunition to criticize the basic commitment of the Federal Government to do something, which I would argue, only the Federal Government can adequately do.

Senator DURENBERGER. Art?

Mr. NAFTALIN. Senator, I hope I'm in order if I make a brief statement at this point. I have been rather strongly moved by these four statements. I think they have been unusually informative and articulate. I'm especially moved by Earl Craig's statement, because it confirms something that many of us who have been tracking not only the New Federalism but budget cuts have come to feel; that is, that the poor in this Nation are being asked to take on an unusual burden of supporting whatever it is we're going through, whatever the transition is.

I think it's relevant to the New Federalism, because the New Federalism was born amidst the budget cuts that carried with them a 25-percent reduction in block grants. So, in the public mind and even among those monitoring this transition, there is a great confusion and a tendency to relate the budget cuts to the New Federalism.

What I find disquieting about what is happening are two related things. One is that I sense—and all the members of the panel have, in one way or another, indicated this—that America is now really becoming two Americas. The Kerner Commission warned, back in the late 1960's, that we were on our way to becoming two Americas, one black and one white. I think it's no longer accurate to characterize it as a black and white division. To be sure, the poor America is still very heavily made up of minorities. However, there are so many others—handicapped, elderly, unemployed, all kinds of individuals—who are simply lost now in the transition, in the reduction of programs which need to reach them and are not reaching them.

I'm disturbed because I think the extent of human suffering is not fully appreciated by the other America. I've become more aware of this in recent weeks as I've intensified my activity in observing the efforts of the poor to express their concern. I find this very disturbing because I think that the division between the two Americas is growing wider.

I think the discussion about the New Federalism and the turnback to the States of programs is intensifying this feeling. It is leaving the feeling of powerlessness all that much larger on the part of people who feel they are being deprived. I think this bears a strong relationship to the New Federalism.

One reason I am moved to make this statement at this point is that, in responding to Governor Snelling, Earl Craig questioned whether we are adequately represented in State legislatures. I think this question is at the heart of the New Federalism discussions. The question is: "To what extent can we trust the States to be responsive to our needs?" Governor Snelling indicated—and this view is widely shared in the country—that the States are now in a position to be responsive and will be responsive.

I think the record reads so clearly on this score. I think it needs to be underscored. The responsiveness that we've known in these last

50 years has come from the Federal Government, despite the States. I don't want to quarrel with Governor Snelling over whether there is representativeness in State legislatures. But, on the matter of responsiveness, it is clear that the National Government is the one that is protecting human rights. The National Government has reacted and responded to matters of helping the handicapped, the deprived, and the dispossessed—not the State governments.

Here and there there is a Minnesota, and here and there there is a New York and a California. However, basically the States haven't responded. I'm very fearful—as I think is almost everybody who has testified here today—that, if we leave our problems to the 50 States, they will not receive the attention they need. I fear that the division in America is going to widen at a precipitous rate—a rate that should alarm and concern all of Congress. I think there is a much more alarming, a much deeper division in America than is generally appreciated.

I apologize for making a personal statement to this effect. But, as a surrogate senator for 1 day, Senator, I couldn't resist the temptation to go on record on something that I feel is so important for the future of this Nation.

Senator DURENBERGER. Are you going to ask a question on top of it?

Mr. NAFTALIN. Yes, but I don't quite know how to phrase it. We're concerned about the growth of entitlements. We're concerned about the decrease in money available for social services. We are talking about some kind of maintenance of income. Is there some way to group all of them to provide a genuine security net which will give money to the people who are in need, and somehow relate the programs across the board?

I'm very much concerned that we keep thinking that, somehow, if you live in Mississippi, you can live on less money if you're on AFDC; and that we're somehow justified in letting the States decide this. We don't apply the same standard, do we, to social security? If you live in Mississippi, you get the same social security payment as you would in Minnesota. Isn't social security basically a welfare program? We think of it as insurance, but isn't it welfare? I'm making a strong contribution—as we all are—to the social security program, and there are a lot of people receiving benefits who have not paid in the amounts they're receiving. Is there some way to group these things to give us a proper maintenance of income programs for this Nation?

Mr. CRAIG. If I could, Art, there are experts on either side of me. I'll let them give a kind of technical answer. However, it seems to me that we've got to say two things, at least one of which is uncomfortable for me. I'm prepared, unfortunately, to accept the fact that there is going to be less resources available, for a variety of reasons which are both national and local; and there is going to be more competition which I have already mentioned. I think that those who argue—as I do—that more of those resources ought to go to poor people or that less ought to be cut for poor people, are arguing about less overall. I think I'm willing to accept that.

The second thing, it seems to me, is to put the lie to the statement that the major beneficiaries of the public sector are poor people. It's just not true, and that needs to be said over and over and over again.

One of the examples that I often use is that if you take all of the Federal housing programs for poor people from 1937—when they were first set up—through 1979 and put them all together, they add up to less than the tax-related deductions for 1979 alone. That's all of the housing projects, their buildings and maintenance—all of the 235 program, all of the 236 program, all of the section 8 program. That was $21 billion in tax deductions for 1979 alone. By 1981, they've gone up to $35 billion; and by 1986, those tax deductions will go up to $80 billion.

So, we need to make it very clear where the public sector is going and where it is not going in totality. It seems to me that it is a mistake to make this a technical, rational Harvard Business School question. It is a political question. It is a question of priorities of where we think the public dollar ought to go. A part of that is making it clear to the total populace where they are going now. If there is going to be less resources, what are we all willing to give up in that process?

Senator DURENBERGER. Bob, were you also going to respond to that?

Mr. GREENSTEIN. A couple of comments. It's my understanding—and I think this is kind of interesting—that in recent years, the fastest growing part of the Federal budget was not in entitlements, social security or anything like that. It was in—if you consider it part of the Federal budget, as some of us think it should be—tax expenditures. That fits in with the point Earl was just making.

Second, take the entitlement programs—and I think this is a key point—and divide them into the universal insurance programs and the means tested programs. You were just saying, "Well, isn't social security, after all, welfare?" Politically, it's not viewed that way. About 85 percent of the beneficiaries of social security are above the poverty line. Now, without social security, many of those people would be below the poverty line. By having the structure that it has of being a universal program without the connotations of a means tested welfare type program, the political context is quite different—not just whether it's social security, but whether it's medical care or guaranteed student loans or whatever.

It just struck me. A month or two ago on the Phil Donahue Show, Jesse Jackson or someone said, "Isn't it true that there is more money going to the middle class than to the poor?" The audience all said, "No, that isn't true at all." They rose out of their seats. But it's true in spades. It's true to a remarkable degree when you add up the dollars.

We recently looked at all of the programs of the Federal Government for which you have to be poor to qualify, or for which most people are poor. Those programs in 1981 had appropriations of $100 billion. The request for 1983 in the administration's budget is down to $62 billion. There is no other part of government where that's happening.

I don't know how to answer the question, "What should we do about it?" There is an old saying: "Programs for poor people tend to be poor programs." There is a group of people whose answer is, "Make everything a universal program. Make school lunch universal and free for everybody." But that makes everything far more expensive than it already is. That isn't practical, either.

Then you get some of us people like myself who have tended to say, "No. If we need to save some money, cut back on the subsidy for the middle-income for school lunch and protect the free lunch. Target programs." Yet, the more you target programs, the more unpopular they become, because they have the more narrow base.

I don't know what the answer is. We did very badly last year on a number of programs. In one small area—which my sense tends to be that for the working force—we should, as much as possible, deal with their income maintenance issues with the income tax and not with welfare programs. It we have the resources, we shouldn't simply restore all the income disregards that were cut. Instead, maybe we should expand the earned income tax credit. It deals with people with greater dignity. It isn't subjected to the political whims of ups and downs. We have to find mechanisms to deal with that political reality. Beyond that, I don't know what the answer is.

[The prepared statements of Ms. Kaufman, Mr. Fargione, and Mr. Craig follow:]

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TESTIMONY TO: The Senate Subcommittee on Intergovernmental Relations

CHAIRMAN: Dave Durenberger

DATE: April 29, 1982

PRESENTED BY: Barbara W. Kaufman, Executive Director
Minnesota Association of Voluntary Social Service Agencies

I appreciate the opportunity today to speak to the President's proposal for a New Federalism as it affects human services. As executive director of the Minnesota Association of Voluntary Social Service Agencies, I work with a state-wide network of private agencies serving close to 100,000 Minnesotans every year. And I am sure that I can speak too for many other lay and professional people around this state who are concerned about the needs of people in Minnesota who are counting on these human services.

The basic premise of the Reagan proposal is to withdraw the federal government completely from the human services. Granted that he suggests doing this gradually and providing initial support through a trust fund until the end of this decade. Still the goal is unmistakable: Reagan believes the federal government should not participate in administering or funding human service.

I would like to set the questions somewhat differently. Should the federal government share in the funding of human services? Should the federal government have a part in the administration of human services?

an equal opportunity employer

First let us look at the people who now use these human services. They are all around us:

--abused and neglected children and adults;

--mentally ill and mentally retarded people;

--children in foster care and those needing adoptive homes;

--runaway youth;

--migrants needing health care and day care;

--the working poor;

--the chemically dependent;

--pregnant women and their infants;

--people in need of job training and vocational rehabilitation.

The services these people need are not frivolous. Abused children are entitled to our protection. Hungry families should be fed. Fuel assistance, in a time of stratospheric costs, is an absolute necessity in a state such as Minnesota. These are the programs that the current administration proposes to throw entirely on state and local resources. This is a far cry from "block granting" services. It is an abdication of all federal responsibility.

We feel this abdication is entirely unjustified. The needs being met through these human services are not just state or local needs. They are national in scope. The problems are far beyond the reach or the control of any state. Unemployment on the Iron Range is tied to the problems of General Motors and the steel mills of Pennsylvania. High interest rates are not a product of the Minneapolis banks. Other problems such as spouse and child abuse, alcoholism, and mental illness have a direct relationship to unemployment and its stresses. Low pay rates for women are not limited to Minnesota.

And although it sounds nice, the creation of more jobs will not solve the problems for the millions who are, at best, marginally involved in the job market. Do we really expect all senior citizens to go back to work? Don't we want young children in school rather than on the job? Are the mentally and physically handicapped to sink or swim on their own, without any help from us? No, these needs will remain even with "full employment."

We find the Reagan proposal unacceptable in its basic philosophy. Human problems and human needs are a national reality and therefore a national concern. This is not to imply that state and local government have no role or responsibility. But we feel it is morally wrong for the federal government to abandon millions of citizens in need.

The second question deals with the funding of human services. If the federal dollars, coming largely through a progressive income tax, are withdrawn, then such services must be funded out of the more regressive dollars available to state and local government, such as the sales or property taxes. And this presupposes that states and counties will be both able and willing to use more dollars for human services.

I don't know about all fifty states, but I do know that over the past year Minnesota has had to deal with almost a billion dollars in state deficit. We lack energy resources to provide income to the state. Farming is in deep trouble. Business is sagging, here as elsewhere. Minnesota doesn't have the dollars to put into relieving the federal government of its human service responsibilities. Neither do the Minnesota counties; a good deal of the state's financial problem has been passed on to local government with an inevitable rise in our property taxes. Our state and our cities may be perfectly willing to provide such services, but we are fiscally unable to shoulder the entire burden.

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A further difficulty is demonstrated by the disparity among states. Some states with rich energy resources have a much greater ability to fund human services or anything else. Other states are scraping by. What does this mean for the people in need in Minnesota vs. those in Texas or North Dakota? Statistics from the Child Welfare League of America show that those states with high unemployment and more adequate welfare programs will be hit harder than those states where unemployment is low and the welfare programs marginal. People in the northeast and northcentral states get hurt more than those in the south. This inequity is unjust and indefensible. The federal government has a responsibility to reduce this inequity.

The question about who should administer human services also involves equity -- equity among the states and equity for the people needing services. Frankly, I get a little scared when I hear the President talking about voting with one's feet. He appears to be implying that it's all right for states to abolish any service or deny it to any group. Does this mean that a state may decide to ignore abused children? Does it mean that children can be placed in foster care just because their parents lack income? Does it mean that a state may decide to exclude all black children from services. I think it could.

I also think the President's suggestion may lead to a state vs. state struggle to minimize human service costs. That struggle may include a return to residency requirements and even one-way bus tickets to somewhere else.

There is a case to be made for nationally established program standards. Take foster care as a case in point. The Congress, through the Foster Care and Adoption Assistance Act (96-272), has established national policy on foster care. Prior to its passage, tens of thousands of children were "lost" in foster care. Many drifted from home to home. The average child was without a permanent home for five years. Then Congress decided to set standards for foster care.

Those standards included:

--regular and frequent reviews for each child placed outside his own home;

--a state-set goal for reduction of the number of children placed outside their own homes;

--a one-time inventory of all placements;

--a permanent tracking system for all children in placement;

--federal money to subsidize the adoption of handicapped children.

In Minnesota, these standards have resulted in a completed state-wide inventory, the beginnings of a tracking system, and a substantial increase in the number of subsidized adoptions. The number of children in foster care in Minnesota is already declining.

Another case in point is the enforcement of Title VI of the Civil Rights Act. In 1978 the General Accounting Office reviewed the implementation of Title VI in the child welfare programs around the country. One of their findings was that minority children remained in the child welfare system longer than white children and received less specialized attention. In other words, the child welfare systems of the states were not giving minority children equal treatment. Are the state systems likely to suddenly change without the federal monitoring? Is it not the responsibility of the federal government under the constitution to ensure such equity? Whatever the failures of the present system, it is unlikely to be more equitable in the absence of national standards.

A third example is the Women, Infants and Children program (WIC). Its provision of milk, infant formula, and fortified cereals to pregnant women and infants has resulted in a demonstrable savings of $3 in health care costs for every $1 in food costs spent. The program is supported by everyone from Dr. Edward Brandt at the Department of Health and Human Services to the American Dietetics Association. It is a preventive program, and one that can be shown to be effective. But

programs of prevention are notoriously hard to "sell." Without federal standards I doubt we will find a WIC program in all fifty states. Yet what could be more essential to this nation as a whole than the health of our children? Is this not a proper subject for national standards?

It is our belief that in areas such as employment and training, child welfare, nutritional programs, and basic health care, it is the responsibility of the federal government, speaking through Congress, to establish such national standards. These issues are too important to all of us to be left to the possibility of fifty different state standards.

There are four other kinds of national standards that should be a part of every human service program. I would like to touch on them briefly:

1. A requirement that no group be discriminated against on the basis of race, religion, sex, age, national origin, or handicap.

2. A limit to the allowable administrative overhead costs at federal, state, and local levels.

3. A requirement that the public, particularly people receiving services, be given sufficient voice in the planning and priority setting for public programs.

4. A requirement that state and local government provide an accessible and workable appeal mechanism to correct inequities.

The proposal from the Reagan administration to divest itself of all responsibility for human services in the fifty states is one that, in good conscience, we cannot support. It fails to meet the basic tests of equity and fairness to people in need. It does not even treat the states fairly. While I can be happy to live in a state that, barring fiscal disaster, will try to meet its human service needs, I am also a citizen of the nation. We are all interdependent. It could be disasterous for us to say, "I don't care what happens out there."

I thank you for the opportunity to speak to this proposal. It is reassuring to know that Congress is taking a careful look at what we consider to be a destructive program for people.

TESTIMONY OF MICHAEL FARGIONE

April 29, 1982 Minneapolis

Since 1972, I have had experience in representing low income individuals receiving Medicaid or AFDC. I will focus my remarks on these two programs as they would be affected if the administration's "New Federalism" were adopted. The administration's proposals for each program will be discussed in turn, and I will conclude with a few guidelines which I believe to be appropriate if restructuring of Medicaid or AFDC were found to be appropriate.

AFDC

The initial Aid to Families with Dependent Children program was created in 1935 as Title IV of the Social Security Act in order to help poor children. Congress said that the law's purpose was to encourage the care of children in their own homes by enabling the states, so far as practicable, to provide the children with financial assistance. 42 U.S.C. §601. It was assumed, during a period of national economic crisis fifty years ago, that the federal government had an interest in the plight of poor children in this country and that the states should be enabled and encouraged to provide assistance to these children.

Times have changed. The administration now proposes a plan to eliminate AFDC from the Social Security Act. The states will receive no federal assistance in meeting the needs of poor children. As in 1934, states will be free (with whatever state funds are at their disposal) to provide whatever system of assistance appears to be feasible.

Such a proposal is not appropriately named "New Federalism." Rather, it is "no federalism." In the administration's proposal there is no federal involvement whatsoever in AFDC. The program is simply abandoned. Likewise, we abandon the assumption which has existed for more than two generations that the federal government, even during a period of economic crisis, maintains an interest in the plight of poor children in this country.

And what do states gain from the administration's proposal concerning AFDC? The administration "transfers control" of the program to the states only in the way that a father abandoning his family "transfers control" to the mother left with the children. The administration's proposal creates no standards and provides no funds; the federal government simply washes its hands of the AFDC program. This provides no benefit to the states. Under existing law, states already have the option of ignoring the AFDC program

and of using state money to finance an alternative program. One might assume that this option is not attractive to the states since no state has chosen to abandon AFDC in favor of its own independent program. Nevertheless, this is the result which would be mandated by the administration's proposal.

And what are the effects for poor children? Ten years ago Congress and the Nixon Administration created a basic federal payment for elderly blind and disabled individuals, a federally financed income floor which was then $130 per month. They indicated that this new system, enacted in 1972, was based upon "a sympathetic understanding of the needs of the helpless."[1] Today, rather than create a basic income floor for poor children, and rather than maintain even the level of income security achieved by AFDC, the Reagan Administration sponsors an abdication of any federal responsibility for meeting the needs of poor children, suggesting that their needs are a matter of purely local concern. This is not progress.

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[1]House Ways and Means Committee Report No. 92 - 231, 1972 U.S. Code Cong. & Adm. News, p. 4991.

Medical Assistance

The administration justifies its proposal to eliminate AFDC by suggesting that states can finance their own programs for children with funds generated by a federal takeover of Medicaid. In the initial proposal for eliminating AFDC, the administration indicates that the federal Medicaid takeover will save the states an estimated $19 billion in 1984. These are the funds which might be used to finance alternative programs for poor children.

But a rather basic gap exists in this reasoning, since the administration makes no guarantee that existing levels of medical services would be maintained following a federal takeover of Medicaid. The states do not need any help from the administration if the only objective is to generate $19 billion dollars in savings for 1984. Under existing law, the states could simply opt out of the Medicaid program and thereby save all of the money which would otherwise be spent on medical services for poor people. The vast majority of states have not exercised that option and thus far have chosen to forego the savings in order to purchase medical services. The rather obvious point is that there can be no rational discussion of financial savings without a prior

understanding of the medical services which would be sacrificed to generate the savings.

The administration has thus far failed to describe either the persons who would be served by its new program or the medical services which would be provided by a federal program replacing Medicaid. Consequently, no one knows how much of the $19 billion in projected savings would have to be spent by states which want to maintain the existing level of medical services provided by Medicaid.

The problem with the administration's proposal can be illustrated by Minnesota's Medical Assistance (Medicaid) program. All states participating in Medicaid are required to provide coverage for certain individuals (categorically needy), but states may also elect to cover other persons (medically needy). With respect to services, all states are required to provide some basic services (inpatient hospital, outpatient hospital, skilled nursing home, physician, and lab and x-ray services). A dozen additional medical services are optional. Minnesota's program covers both categorically and medically needy, and it provides both mandatory and optional services.

In October, 1981, Minnesota's Medical Assistance payments exceeded $67.5 million dollars. Approximately 54% of that amount

was paid by federal funds. If the federal government had assumed full responsibility for Minnesota's Medical Assistance program in October 1981, the state might have saved $31 million (46% of the total cost). But what would happen if the federal government covered only the mandatory Medical Assistance services and did not cover optional services? The mandatory services in October cost $33 million. This would have been paid in full by the federal government. If the state were to maintain all its optional services, it would have had to come up with an additional $34.5 million. This is three million dollars more than Minnesota actually paid under the Medicaid system. A federal takeover of Medicaid which covered only mandatory services might cost Minnesota more money than the current system. It would certainly not generate substantial savings.

A comparable result would occur if the federal government created a program which covered only categorically needy persons while excluding the medically needy now covered by Minnesota.

Under these circumstances, since no savings are generated by a federal takeover of Medicaid, there would be no money available to fund an independent state program for poor children.

Principles

1. Consider Medicaid and AFDC separately.

There is no logical link between these programs in the administration's proposal. One is slated for total state control and the other for total federal control with no rationale apparent.

It would be more appropriate to consider each program on its own merits. The goal would be to devise an effective method of providing services with the resources available.

2. If it works, don't fix it.

It would be quite helpful to isolate both the specific problems with the existing programs and their existing strengths. This might provide some rational basis for determining if any particular goals are being achieved by proposed changes and what is being sacrificed to achieve the change.

The administration's proposal falls short of this approach. Rather, it kills the AFDC program begun in 1935 and the Medicaid program begun in 1965. In their places, it substitutes 50 undefined state programs for poor children and one undefined federal program for medical services.

One might infer from this proposal that the administration finds both AFDC and Medicaid to be such hopeless failures that

any alternatives, even undefined ones, are preferable. Or, one might infer that the administration is indifferent to the quality of any programs serving poor people so long as federal expenditures can be cut.

The experience of most people in Minnesota suggests both that the existing AFDC and Medical Assistance programs have been effective and that Minnesotans are not indifferent to the needs of low income citizens. Consequently, something more than undefined alternatives to AFDC and Medicaid should be offered in order to justify a change.

3. Build on elements of SSI which have been successful.

In 1974, existing programs for elderly, blind and disabled were repealed, and a new federal program called Supplemental Security Income was created.

In Minnesota, SSI now provides a basic payment which is supplemented according to state standards. The state standards differ from the federal in a number of ways. The state program is based upon individualized budgets, not on a flat grant like SSI. The state program provides greater work incentives (i.e., disregards of earned income) than SSI, but it allows lower amounts of savings for eligible individuals. The state's cost for this supplementary program have been virtually stable for a number of years.

As this program now operates, the federal government provides a national standard of eligibility and national floor of income security for elderly, blind and disabled individuals. Although the changeover period from 1974 through 1976 was a nightmare in many ways, the current system appears to be quite effective.

A federa l ly financed program providing income security for children and medical services for poor people could be created to provide a national standard in these areas. With money saved by the states, a requirement could be imposed (as it was in SSI) to insure that existing benefit levels in a state program are not suddenly reduced and to require some maintenance of effort on the part of the states. This approach provides both local control over local funds and a high element of security for low income people. This would appear to be one reasonable approach to restructuring of AFDC and Medicaid, and it is possible that the past eight years of experience with SSI might provide some data from which prudent judgments could be made concerning anticipated costs and benefits.

Respectfully submitted,

April 29, 1982.

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PREPARED STATEMENT OF EARL D. CRAIG, JR.

Senator Durenberger, Governor Snelling and members of the subcommittee. My name is Earl Craig. I am president of the Urban Coalition of Minneapolis, which is a private, non-profit research and advocacy organization. Our constituents are poor people and communities of color.

Because we foresaw (and still see) a continuing decrease in public resources for poor people, the Coalition has focused in the last few years on the importance of restructuring state and county services and taxes. It is clearly in the interest of poor people to have services delivered more effectively than to merely cut programs or restrict eligibility.

However, our premise has been that the public sector must maintain its historic commitment to disadvantaged people, but the way in which that commitment is fulfilled should be subject to extensive scrutiny and innovation. Let me underscore, however, that the fundamental commitment must remain unchanged.

This is where the Coalition and the Reagan administration part company.

Under the guise of reforming "who does what" at various levels of government, the administration has proposed a "New Federalism" which basically undermines the ability of government to assist people with the greatest needs. In a larger context, New Federalism is part of a abdication of public responsibility for the domestic health and well-being of all Americans. It must be rejected.

Poverty is a national problem. Poverty is rooted in national economic and social conditions. It requires a national response to insure equitable access to a minimum standard of living for all Americans. Moreover, welfare expenditures are inversely related to the health of the economy; if the economy is down, the need for welfare is up. State revenues, on the other hand, are directly related to economic conditions. There is a discontinuity here which would jeopardize the ability of economically distressed states to

provide for the survival of the poorest residents if it were solely a state responsibility.

I find it most revealing that the Reagan administration kept for itself the politically popular constituency, the aged and disabled, while assigning states responsibility for "welfare" and "welfare" recipients. It is a great political deal for the administration.

It all contributes to my view that the administration's intentions in New Federalism, are disingenious with respect to the poor.

But even if the administration's intentions are sincere, the risks for the Coalition's constituency are still too great. The current alignment of public responsibilities has resulted in major strides forward for low-income and minority people. Until the economy plunged in 1980, less people were poor; fewer people were hungry; more people lived in decent housing; and fewer babies died because of low birth weights.

In simplest terms poor people are being asked to trade these gains for 50 new throws of the dice, in a crap game where the poor are being forced to put up all the stakes. As a spokesperson for the poor, I simply can't make the leap of faith required to endorse a set of reforms where the poor are the primary, if not the only, risk takers.

At this juncture, I must respond directly to three points that I understand Governor Snelling made this morning: a) that racial minorities are better represented in state legislatures than in Congress; b) that the poor and racial minorities, like all special interests, are never satisfied with legislative outcomes; and c) if the poor are not happy, there is recourse to the electoral process.

Taking these in reverse order: First, it is true that the poor have recourse to the electoral process and that their relative political weakness is partially a result of low voter participation and that low benefits

from the legislative process are probably their just desserts for not voting. But remember, poor people are not a powerful political constituency. They represent less than 15 percent of the nation's population. Racial minorities are just that, minorities.

Second, it is also true that the "poor people" special interest will never be satisfied. But, two comments: the interests of service providers for the poor, who do most of the legislative lobbying are not necessarily synonymous with poor people; and, neither has done very well lately.

Third, and most importantly, even if racial minorities have more representation in some state legislatures than in Congress, that is not the same as saying poor people do and, if so, it is irrelevant.

Poor people, under the New Federalism, will have to contend in three inter-related but distinct contexts: a) that they are a minority in a population majority that consistently says that the place to cut public services is "welfare" (see Appendix A); b) that benefits and services for the poor must compete with many other state services (schools, roads, aging, infrastructure, economic development, and the list goes on); and c) competition among the fifty states for business. The fifty states compete for investments and jobs. And in the long hand, poor people in the winning states will benefit from more jobs. But in the short ~~hand~~ run and in the losing states, poor people cannot help but suffer. Aging infrastructure will be improved; taxes will be kept at current levels or lowered; supportive services for business and non-poor will be maintained. What will be reduced is support for job training for the structurally unemployed, for new housing supply, for day care, for mass transit for poor neighborhoods.

In all three of these contexts, regardless of the number of legislators of color, poor people cannot win. When the majority of non-poor people express their will to their state legislators, no legislature in the

country, none, will significantly cut services to the non-poor to increase or maintain them for the poor and none will raise the additional taxing capacity offered by New Federalism and risk losing competitive position with other states. Without disparagement of the compassion of any one, the poor are in an absolute no-win situation.

Having said all this, let me leave slightly ajar the door to some shifting of responsibilities. In reviewing the "turnback" programs, I find room for sorting out federal/state responsibilities in areas like education, transportation, community development and health and nutrition. But along with increased responsibilities must come adequate resources to implement programs at the state level.

If the turnback of program authority is to occur without these destructive forms of competition emerging, much more attention must be paid to the ways in which adequate resources are to be returned. In addition, there must be continued involvement of the federal government in setting minimal standards for services that are judged to provide for the basic needs of the poor.

Reform which encourages uniquely local responses to problems and provides adequate resources is desirable. Reform which places program authority with state and local officials, but fails to provide the wherewithall is no reform at all. It's just cutting the budget at the expense of the poor.

As I think about the New Federalism, it occurs to me that there is no Harvard Business School "correct" answer to how government responsibilities should be distributed. It has been and will continue to be primarily a political question. I, for one, and the minority communities are not enamored of the simple-minded principle that "local" is always better. But the Urban Coalition is also not a blind defender of the status quo. We've been on the leading edge of groups calling for a re-examination of the way services

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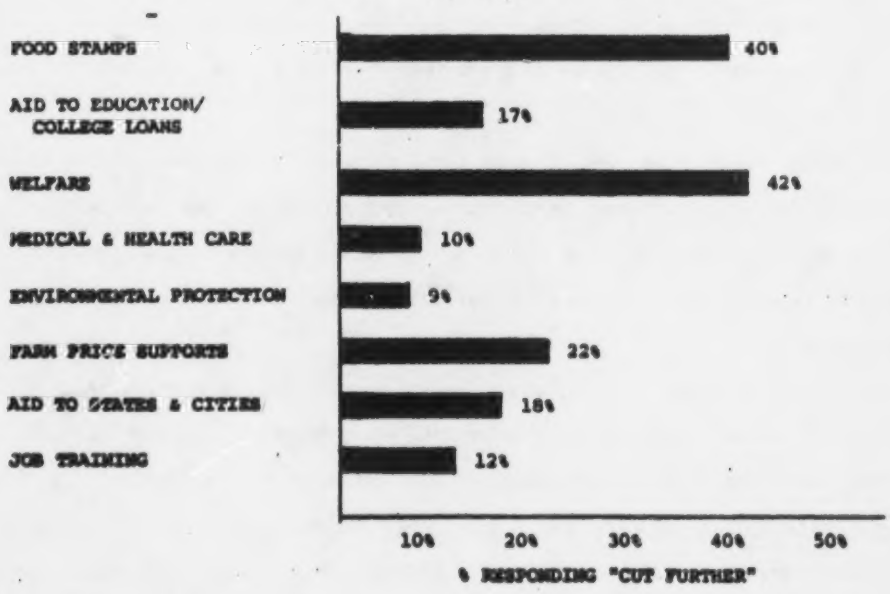
are provided on the state and county level in Minnesota. We're willing to embrace new ideas that shatter old conventions if, in the final analysis, Blacks, Indians, Hispanics, Asians and low-income Whites are likely to benefit.

I'm convinced New Federalism Reagan style does not benefit poor people, and I've yet to see the alternative that does. Yet, I'm willing to keep listening, but if I can close with a quote from a man with solid Republican credentials, Abraham Lincoln, "I shall adopt new views so far as they appear to be true."

APPENDIX A

"Do you think Federal spending in the following areas should be cut further, increased or remain the same?"*



*reported in Newsweek, 2/8/82

Senator DURENBERGER. I have a concluding statement to place in the record.

[The statement referred to follows:]

Today we have heard the testimony from witnesses who represent local government, state government and human resources organizations. There has been general agreement about the need to rethink the federal system and its relation to local/state government and to the recipients of federal aid.

In a few weeks, the President will send to the Congress his bill which will specify the details of the new federalism. Congress will then begin the formal process of debate and consideration of the President's plan.

The advice and counsel which the witnesses have provided today is very valuable to the deliberations and negotiations which will take place. Washington needs to hear your responses to this plan since the new federalism can potentially alter all of our lives—as individuals and as a nation.

I want to thank all of the witnesses for appearing before the Senate Subcommittee on Intergovernmental Relations today. I appreciate the thought and effort which you put into this hearing.

Also, I wish to extend my special thanks to both Governor Snelling and to Arthur Naftalin for their assistance as "surrogate senators" today.

Senator DURENBERGER. I will add to it just a general observation of two points which were raised here at the end. One relates to, "Why talk about this Federalism now?" As one who claims a major role in forcing the discussion now—right in the middle of the recession, budget cutbacks and a lot of things with which I didn't agree—I just want to say that, having this hearing here today, and having people like Dick Snelling and a lot of other people around this country pressing on us some solution to a redefinition of Federalism, I think, is absolutely essential.

I just think Earl is right. Look around at every social service and other kind of related agencies that has held conferences in the last 12 months on the subject. The title of the conferences has always been something to the effect that we're going to learn how to do more with less. It's been sort of a combination of "Yes, we can do it better because there will be, in some sense, fewer resources."

So, I think it is appropriate that we keep struggling with the issue of what is this New Federalism that we're discussing. We probably should not be in a rush to give it a definition in terms of simplistic swaps, simplistic turnbacks, and even simpler trust funds.

Maybe there is value in the fact that negotiations have taken a little longer than people anticipated. When there is a so-called settlement or negotiation agreement announced, it will probably be accompanied by a statement that legislation may be introduced this year, but it won't be appropriate to pass until next year.

That's the kind of discussion that took place here today. It ought to be taking place all over the country. As Dick Snelling said, "It certainly ought to involve my colleagues in the legislative process who have been involved in it today."

My last observation relates to the fact that Earl felt it was necessary to write in some specific comments in response to Governor Snelling's comments about where minorities are best represented. I know you weren't here this morning, or you probably just happened to hear him make that comment. I'm sure there were as many different interpretations of what he said as there were people here.

My feeling was that he was talking in terms of a wide variety of people whose voices are not heard over the din of louder voices, and

not necessarily in terms of either sex, religion, race, handicap, or other kinds of minorities. I suspect, when he talked about being better represented at the State or local level than at the national level, he may have had in mind the experience we had last year in which the louder voices of the elderly, for example, certainly drowned out the voices of the AFDC mother. She was trying to tell us, "Don't mess with that earnings. Disregard it because it will force me out of work." A variety of other voices are not loudly heard at the national level, because the voice that's being heard now is simply, "We can't afford a trillion-dollar-plus debt. We can't afford 20-percent inflation. We can't afford high interest rates."

Perhaps he was suggesting to us that it may well be that the other voices in the income security area, other than Federal dollar responses to income security, might be better heard at the local level—the voices that talk about jobs, family, nonprofit, for profit, delivery systems and so forth. Those parts of the income security system could be better heard at the State and local level. They haven't been well heard in the last 10 years or so, because the voice of categorical response to a lot of income security—including social security over pensions, social security over savings, social security over so many other things—have left them out.

I don't know. I haven't discussed this with Dick. I think it's important to add that kind of dimension here at the end of this discussion. It's a very, very important discussion of income security and a terribly important discussion about the appropriateness of our various roles. I get into nothing but trouble with my Republican colleagues by talking about my feelings about the Federal responsibility in the area of income security. But that's only because they don't look at it in the broader scope of savings, investing, social insurance, and the kind of welfare and social services issues we tried to discuss here today.

I thank you for adding to the dimension of the record and doing it in a very sensitive way.

Art, I thank you for holding back your feelings until the end.

Mr. NAFTALIN. Well, thank you.

Senator DURENBERGER. And sharing with the record—and, therefore, with a lot of my colleagues—your experiences, your reactions and everyone's advice. So with that——

Mr. NAFTALIN. May I just say one thing? Thank you very much. I really am flattered and honored to have been invited. I really am grateful for this opportunity. Thank you very much.

Senator DURENBERGER. Thank you very much. The hearing will adjourn.

[Whereupon the hearing was adjourned, to reconvene subject to the call of the Chair.]

Additional Material Submitted for the Record

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
Washington, D.C., February 4, 1988.

THE PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: In response to your request at our meeting last Monday, I am respectfully submitting two documents which outline my views on the New Federalism. The first is a short list of principles that might guide the design of the final package. The second is a detailed proposal that I offer as an amplification of the basic elements that you presented to the Nation in your State of the Union Message.

I am sure that I speak for public officials all across the country by expressing my sincere appreciation for the leadership you have provided in making this proposal and for the spirit of open consultation in which the details are being established. I look forward to working for your program when it reaches the Congress and offer any further effort that may be of assistance.

Respectfully,

DAVE DURENBERGER, *U.S. Senate.*

Enclosures.

BASIC PRINCIPLES FOR A NEW FEDERALISM

(1) Federal assistance to State and local governments should be provided through general purpose resource return programs rather than categorical grants.

(2) The Federal Government should guarantee the income security of all Americans which includes economic access to a range of services that provide a minimum standard of living. To the extent that income security programs are administered by State and local governments, the Federal Government should provide resources adequate to fulfill this responsibility and require a minimum standard of support based on individual need rather than aggregate spending levels.

(3) In providing general purpose fiscal assistance to State and local governments, the Federal Government should seek to equalize the fiscal capacity of places.

(4) As a corollary to principles 2 and 3, the Federal Government should establish a permanent program of general purpose fiscal assistance to State and local governments financed by dedicating a percentage of the Federal income tax to the New Federalism Trust Fund.

(5) Transition from the current system of categorical grants to general purpose fiscal assistance should assure adequate time and resources for State and local governments to adjust their programs and tax systems to the principles of the New Federalism.

(6) State governments as partners in a New Federalism should make a commitment to more tax and program autonomy for local governments.

TWO PROPOSALS FOR A NEW FEDERALISM

(By Senator Dave Durenberger)

This paper briefly describes the "New Federalism" initiative proposed by the administration and offers an alternative based on selective changes in specific aspects of that program.

(1) The swap: The administration has proposed a "swap" that would realign responsibilities in the Federal system. Beginning in 1984 the Federal Government would take full responsibility for the Medicaid program. At the same time State governments would take full responsibility for Aid to Families with Dependent Children (AFDC) and the food stamp program. Food stamps is currently a Federal program, while Medicaid and AFDC are shared—both the Federal and State governments pay part of the cost.

Under current law, States would contribute about $19 billion to the cost of Medicaid in 1984, so they will realize a $19 billion savings, if the Federal Government assumes full responsibility for Medicaid. On the other hand the Federal Government would have been spending $16.4 billion on AFDC and food stamps—costs which the States would assume as a result of the swap. These dollar figures are for 1984 and assume some changes in the programs in the 1983 budget legislation.

(2) Program turnbacks: Beginning in 1984 the Federal Government would make participation in some 43 categorical and block grant programs optional and would offer "super" revenue sharing to the States in place of the grants. Planned Federal expenditures for these 43 grant programs in 1984, assuming some budget reductions to be made in 1983, are $30.2 billion. The grant programs fall in the areas of transportation, community development, education, social services and general assistance.

The optional structure for the 43 grant programs would be terminated in 1988. From that point forward the programs would be entirely up to the States.

(3) The trust fund: Beginning in 1984, $28 billion would be set aside in a "New Federalism Trust Fund" to finance "super" revenue sharing or at the States' option, continued participation in the grant programs that are scheduled to be phased out. The trust fund would be financed by dedicating $16.7 billion from the windfall profits tax and $11.3 billion from existing Federal excise taxes on gasoline, alcohol, tobacco and telephone services. The $28 billion level would be constant for 4 years, after which the trust fund would be gradually phased out.

(4) Allocation of the trust fund: For 4 years beginning in 1984, each State would be allocated a constant dollar amount from the trust fund to assure that no State would have less or more Federal assistance than was received prior to enactment of the New Federalism program. This hold harmless provision (no winners, no losers) includes an adjustment to reflect the impact of the swap of Medicaid for AFDC and food stamps.

The first step in allocating trust fund dollars is to determine how much each State would have received from the 43 categorical and block grant turnback programs. The next step is to adjust the turnback amount to reflect the impact of the Medicaid/Welfare swap. Some States will be losers in the swap. They will be taking on more AFDC and food stamp costs than the relief they will realize when the Federal Government takes Medicaid. Whatever the amount of the "loss," that amount will be added on to the funds allocated to the States in place of the turnback programs. To the extent that a State is a winner in the swap, its turnback allocation will be reduced by the amount of the benefit realized through the swap. Thus, for the first 4 years there are no winners and losers when the program is viewed as a whole.

(5) Optional grants: The States may take the entire allocation from the trust fund as super revenue sharing with no strings attached. At its option, however, a State might also use the dollars from the trust fund to "buy" continued participation in some or all of the grant programs. For each dollar of grants "purchased" by a State, that State's trust fund allocation would be reduced by a dollar.

(6) Trust fund phase out: Beginning in 1988, the trust fund will be phased out. Each year the dollar amount of the trust fund will be reduced by one-quarter or $7 billion. The allocation to each State will also be reduced by one-quarter each year.

(7) Excise tax repeal: Phase out of the trust fund will be accompanied by gradual repeal of the excise taxes on gasoline, tobacco, alcohol and telephone services. Each year the Federal excise taxes in these areas will be reduced by one-quarter. Only 2 cents of the Federal gasoline tax is dedicated to the trust fund and only 2 cents will be repealed—one-half cent in each of the 4 years beginning in 1988.

This phase out will not affect the scheduled expiration of the windfall profits tax, although the amounts from WPT collections dedicated to the trust fund will be reduced by one-quarter each year. The windfall profits tax is scheduled to

phase out in 1991 or when $227 billion has been raised. This phase out is in current law and will not be changed by the New Federalism program.

(8) Maintenance of effort: During the first 4 years of the New Federalism (1984–1987), State governments will be required to maintain a level of effort for income security programs. Although the administration's proposal is not specific it appears that the States would be required to spend at least as much on income security as was spent on the AFDC and food stamp programs in 1983. A continuation of the AFDC and food stamp programs as currently designed will not be required.

(9) Pass-through: To the extent that a State decides to discontinue participation in the grant programs on the turnback list and to the extent that grant programs discontinued are currently direct Federal-local grants (UMTA, CDBG, UDAG, GRS), the States will be required to pass-through the super revenue sharing funds to local governments. The amount passed through for direct Federal-local grants will be 100 percent of the value of that grant, if it had been taken as a grant in 1984.

To the extent that States opt out of other grant programs (where local governments are not direct recipients), States will be required to share 15 percent of the super revenue sharing funds with local governments. These funds will be allocated according to the current general revenue sharing formula.

These pass-through requirements only apply to the first 4 years, Phase One, of the New Federalism program.

(10) 1983 budget reductions: The dollar amounts on which the New Federalism program is based are dollar amounts for 1984 and assume substantial reductions in funding levels for the underlying grants as a part of the budget process in 1983. If the Congress should fail to adopt some or all of the budget proposals, the dollar calculations in the New Federalism initiative will be adjusted upward to reflect larger swaps and resource returns beginning in 1984.

ALTERNATIVE PROPOSALS FOR A NEW FEDERALISM

(1) 1983 budget reductions: Officials from State and local governments are understandably reluctant to endorse the administration's initiative, if budget reductions in 1983 have a significant negative impact on their capacity to take over these responsibilities. They might reasonably ask that the swap and turnback proposals hold them harmless at current funding levels (1982 authorizations), rather than at funding levels subsequent to the 1983 budget decisions.

In the Durenberger alternative, this issue would be resolved by creating a special revenue sharing fund—quite apart from the New Federalism initiative—to phase in the 1983 budget cuts. Assuming that Congress does agree to some cuts from 1982 spending levels, an amount equal to 70 percent of the cuts would be put into the special fund and distributed to the States as revenue sharing. Consider a categorical grant program that was funded at the $200 million level in 1982. If in 1983 Congress decides to cut the funding to $100 million, then $70 million would go into the special fund and would be distributed to the States as revenue sharing.

In 1984 the dollar amount of the special fund would be reduced to 50 percent of the 1983 cuts. It would be further reduced to 30 percent of the cuts in 1985 and to 10 percent in 1986. In 1987 there would be no special compensation for the cuts proposed and enacted.

Acceptance of this alternative does not obligate State and local officials to support any or all of the cuts that the administration will propose for 1983.

(2) The swap: Although Senator Durenberger shares the view that income security is a Federal responsibility, there are some conditions under which the proposed swap of Medicaid for food stamps and AFDC would be acceptable. These conditions include a permanent commitment by the Federal Government to share resources from the individual income tax with States in an amount sufficient to meet any income security responsibilities returned and an assurance that the income needs of all Americans will be met through a combination of State and Federal programs. The alternative outlined here assumes that the swap proposed by the administration is enacted as a basic foundation.

(3) Program turnbacks: This alternative also accepts the proposal to return responsibility for a large number of categorical and block grants to the States. Although there might be some variation in the final list, it would be substantially the same as that outlined in the January 27 memorandum on the New Federalism initiative issued by the White House.

(4) The trust fund: The Durenberger alternative also uses a trust fund to finance the New Federalism initiative. It would be of the approximate size as that proposed by the administration. However, it would be financed by a combination of revenues from the Federal individual income tax and the existing excise taxes, rather than the windfall profits tax as proposed in the President's plan. The contribution from the excise taxes would be precisely the same, $11.3 billion. The $16.7 billion to be contributed by the windfall profits tax in the administration plan would, in 1984, be replaced by $16.7 billion from the individual income tax.

The Durenberger plan replaces WPT dollars with income tax dollars for two reasons. First, the New Federalism is based on a reallocation of responsibilities that leaves a substantial income security role with State governments. Although it might be appropriate to administer means tested income security programs at the State level, all income security programs should be financed from Federal taxes. State taxation systems are not sufficiently "progressive" to carry substantial income security burdens.

Second, phase out of the windfall profits tax creates no "tax room" for the States that do not have oil production. In fact, at the end of the administration's 8 year program, States are short $17 billion as a result of the swap and turnback.

The Durenberger plan is based on a permanent trust fund, one that would not phase out after all of the swaps and turnbacks are in place. In 1984, $16.7 billion from individual income tax collections will be dedicated to the trust fund. That is approximately 6 percent of the revenue that is expected to be raised through the income tax in 1984. Every year from 1984 onward the Federal Government would contribute 6 percent (whatever the dollar amount) of its individual income tax collections to the trust fund. As income tax revenues grow, the amount going into the trust fund would also grow. The income tax portion of the trust fund would become a permanent feature of the Federal system.

(5) Allocation of the trust fund: In 1984 the entire trust fund would be allocated to the States on a hold harmless basis (no winners, no losers) according to the same methodology as that used in the administration's proposal. That portion of the trust fund financed by the excise taxes would continue to be allocated on a hold harmless basis, until the excise taxes are repealed. However, the allocation of that portion of the trust fund which is financed by the income tax would be changed beginning in 1985. The distribution of these funds would be moved gradually toward an allocation designed to equalize the fiscal capacity of the States. Under the Durenberger plan and as described above, the portion of the trust fund financed by the income tax is permanent. After 5 years all of the dollars in this permanent trust fund would be allocated by a formula that reflects the varying fiscal capacity of the States.

The change from "hold harmless" to "fiscal capacity" allocations would be gradual. Specifically, in 1985, 80 percent of the income tax trust fund would be allocated by the hold harmless methodology and 20 percent by the fiscal capacity formula. In 1986 the percentages would be 60 percent hold harmless and 40 percent fiscal capacity. (1987: 40 percent hold harmless, 60 percent fiscal capacity; 1988: 20 percent hold harmless and 80 percent fiscal capacity). In 1989 and for every year thereafter, dollars will flow into the trust fund from the dedicated percentages to the States according to a formula that is designed to equalize fiscal capacity.

(6) A fiscal capacity formula: Fiscal capacity varies greatly across the 50 States. One informed estimate indicates that Alaska has three times more tax raising capacity than Mississippi. And the disparities in fiscal capacity appear to be increasing each year.

What is fiscal capacity? Suppose that every State in the Union had precisely the same tax system—the same income tax, the same property tax, the same sales and excise taxes. Under these conditions, some States would raise more dollars per person—many more dollars—than other States. This occurs because some States have a larger tax base—taxable wealth—than others. Incomes are higher. Property is used more intensively. Mineral wealth creates the opportunity for severance tax revenues. So even if all States had the same tax system, some States would collect much more revenue per capita than others.

Large disparities in tax capacity create wasteful tensions in a Federal system. Economic relocation, driven by the individual desire to avoid high taxes in low capacity States, contributes to an inefficient allocation of social resources. Disparities of this type cause disinvestment in built up places and boomtown demand for new infrastructure in unsettled low tax regions.

The Advisory Commission on Intergovernmental Relations has studied tax capacity periodically over the past 20 years. They begin their research by designing an average State tax system. This is a composite of all the tax codes for the 50 States. The next step is to apply this tax system to the taxable wealth of each of the 50 States to determine how much revenue each State could raise, if it imposed the average national tax. Dividing these revenues by the population in each of the States produces the per capita tax capacity for each State.

The Durenberger alternative proposes to allocate that portion of the trust fund financed by the income tax so as to equalize fiscal capacity. Complete equalization is beyond the reach of Federal resources. However, some movement in that direction can and should be accomplished in the allocation of the New Federalism trust fund.

(7) Repeal of the excise taxes: Although the Durenberger alternative would establish a permanent trust fund for fiscal equalization, that portion of the initial trust fund financed by the excise taxes would be phased out. Under the administration's proposal, one-quarter of the trust fund is phased out each year beginning in 1988. In each of the next 4 years, each of the excise taxes (gasoline, alcohol, tobacco, telephone services) imposed by the Federal Government is reduced by one-quarter. This seems to be an overly-complicated and cumbersome approach. In the alternative, one of the four taxes might be entirely repealed each year. The following schedule is suggested: 1988, repeal 2 cents of the gasoline tax; 1989, repeal the tobacco tax; 1990, repeal the alcohol tax; 1991, repeal the excise tax on telephone services. In each of these years the dollar value of the trust fund would be decreased to reflect repeal of a tax.

(8) Maintenance of effort: Under the administration's proposal responsibility for AFDC and food stamps would be returned to the States. This promises to be the most controversial aspect of the New Federalism initiative. Governors, State legislators and ACIR advocate that all income security responsibilities should be transferred to the Federal Government.

The Durenberger alternative would achieve Federal financial responsibility for income security by permanently returning a percentage of the Federal individual income tax collections to the States. In 1984 the additional dollars that States would be required to spend to continue the AFDC and food stamp programs are almost precisely the same as the dollars from income tax collections that would be returned to the States under the Durenberger plan. Since a permanent percentage rather than a dollar amount is dedicated under this alternative, resources going to the States will increase each year.

However, this does not resolve the basic objection made by many that the administration's proposal allows the States to ignore the basic needs of the very poor. Resolving this issue requires a shift of focus from the aggregate spending levels contained in the administration's maintenance of effort provision to the actual economic access of individuals and households to a minimum standard of living.

Under the Durenberger alternative, the Federal Government would define an income level that would assure a minimum standard of living. This amount would be variable according to family size and area of residence. States would be expected, through programs they design, to assure that all citizens had access to earnings or assistance income (whether cash or in kind) sufficient to meet the federally defined minimum standard.

The structure of the new income security programs would be left entirely up to the States. However, there would also be a Federal guarantee for individuals, if for some reason the State was unable to provide adequate support. If for any 2 consecutive years, more than 3 percent of the population in a State did not attain the federally defined subsistence income, in the following year that State would lose its allocation from the New Federalism trust fund. If more than 3 percent of the population remained below the Federal subsistence level for 3 consecutive years, a Federal cash assista ce program would be operated in that State. A State's share of the trust fund would only be restored, once lost, if the State could meet the 3 percent test for 2 consecutive years.

(9) Pass-through: During the initial 4 years of the New Federalism program, pass-through provisions in the Durenberger plan would be precisely the same as those contained in the administration's proposal.

However, since this alternative creates a permanent trust fund, a permanent pass-through provision would also be included. The following methodology would be used to determine the pass-through amount. In 1988 when the excise taxes begin to phase out, pass-through amounts calculated in dollars would be

10 percent less than the dollar amount of the pass-through in 1987, the last year of Phase One. In each succeeding year the pass-through requirement would be reduced by another 10 percent of the 1987 dollar amount.

It is perhaps too early in the era of a New Federalism to determine the future relationship between the Federal Government and the Nation's cities. The New Federalism is necessarily a two part process. In part one, the Federal Government is attempting to reshape its relationship to the States. We do this with the expectation that a New Federalism cannot be entirely successful until the States, acting through their legislatures, create a new partnership with local governments. Beyond the pass-through provisions outlined above, the final structure of the New Federalism awaits the response of the States to this challenge. The form of part two in the process will be determined by the willingness of the States to make local government an equal partner in the Federal system.

STATEMENT OF MORRIS L. LANNING, MAYOR, MOORHEAD, MINN.

Mr. Chairman and Members of the Committee:

I very much appreciate the invitation to appear before you today. Unfortunately, my schedule does not permit me to be here in person. Like most small city mayors, my elected position is only part time; I tell people that being Mayor is my hobby. Today, my professional responsibilities at Concordia College make it impossible for me to be present.

As a small city Mayor, I fully support efforts to redefine federal relationships to state and local governments. For many years, those of us on the local level have been clamoring for more local control and fewer strings being attached to federal support. However, also like many other small city mayors, I have some concerns about shifting responsibilities back to local units of government without appropriate mechanisms for raising revenue.

In order to more fully articulate my perspectives on New Federalism proposals, I would like to briefly examine three basic questions. 1) What has the City of Moorhead been able to do with federal support? 2) What have been the problems that we have encountered in receiving this federal support? 3) Will the New Federalism proposals solve these problems or will they cause new problems?

1) What has the City of Moorhead been able to do with federal support?

We believe that the City of Moorhead is a shining example of appropriate and effective use of federal support. Let me site just a few examples.

> 1) With a total of approximately 9.5 million dollars in federal support, we undertook and completed one of the most extensive small city Urban Renewal Programs ever accomplished. Our entirely new downtown is now very

viable, and you would be hard pressed to find a better small city Urban Renewal Program.

2) We are currently in the process of completing a 27 million dollar Wastewater Treatment facility. This facility will significantly improve water quality in the Red River, the primary water resource for many cities up and down the Red River Valley of the North. It will also enable us to attract agricultural processing industries to our community which we have proudly proclaimed as "Ag Capital of the World". We already have attracted an Anheuser-Busch malting plant partly because of our new plant.

3) With 1.3 million dollars of federal assistance for operational and capital costs, we have been able to rebuild a Mass Transit system from one that was a joke to one that now carries 300,000 rides per year.

4) As a result of a nearly one million dollar grant from EDA, we were able to build a new Industrial Park.

As you can see, the City of Moorhead has done extremely well with categorical grants from the federal government.

Secondly, our community has utilized its $400,000 plus per year Community Development Block Grant money in order to rehabilitate housing stock owned by low to moderate income families. We have been able to rehabilitate over 400 homes since we started this program in 1975.

Finally, our current annual federal revenue sharing allocation is $238,000 per year. Unlike many communities, we have not built this amount into our current operational budgets. We have not paid for salaries or basic services and supplies by using revenue sharing dollars. Instead, we have used the money for capital expenditures such as purchasing equipment, or financing one-time capital expenditures for various facilities.

2) What have been the problems that we have encountered in receiving this federal support?

Even though we are very grateful for having received this kind of federal support, there have been some serious problems associated with the support. Let me just mention a few.

1) Our community was ready to build our new Wastewater Treatment plant back in 1973 and 1974. At that time, the projected cost of the facility was 8-10 million dollars. Unfortunately, the Environmental Protection Agency kept changing its rules or ideas, and this resulted in a continuing delay of the project's start. These delays resulted in a tripling of the total project cost.

2) Right or wrong, the federal government made a decision to heavily invest in supporting Mass Transit systems throughout the country. We took advantage of this assistance, and now it appears that if the federal government pulls away from its involvement, we will be left with a system that we cannot afford to operate.

3) The Community Development Block Grant Program started off on the right foot with a minimum amount of bureaucratic red tape, but unfortunately it has turned into a maze of continually changing federal regulations based on the worst case situation. This worst case syndrome in federal regulation making continually chastizes those communities which duly adhere to the regulations and the intent of Congress.

3) Will the New Federalism proposals solve these problems or will they cause new problems?

As I understand it, under the President's New Federalism plan, all of these programs that I have mentioned would be turned over to the states. In addition, there would be a short-term arrangement of guaranteeing funding to the states for these programs. After a period of years, whether or not these programs would continue would depend upon whether or not the state was ready, willing, and able to raise a like amount of revenue.

The big problem with this arrangement is that various states have different capacities to raise revenue. For example, energy rich states like North Dakota are currently realizing large sums of money from various energy

taxes. The State of North Dakota by the end of 1983 will generate half of its budget from the oil extraction and coal severance taxes. These taxes have enabled states like North Dakota to lower its income and property tax burdens. As an undeveloped or energy poor state, Minnesota has to rely primarily upon the income, sales, and real estate tax dollars in order to support government services. States like North Dakota are able to export the costs of government to other states, vis-a-vis energy taxes being paid by energy consumers. States like Minnesota are not able to export their cost in a similar manner.

So what happens if the federal government no longer raises revenue for these kinds of programs? I believe that states like Minnesota will find it increasingly more difficult to compete with the energy rich states. We are experiencing today an exodus of Minnesota jobs and people moving to a more favorable tax climate in North Dakota. The State of North Dakota could choose to continue funding all of these programs without adding very much to the burden of its taxpayers, while the State of Minnesota would only add to its already heavy tax burden. If the State of Minnesota chooses not to fund these programs, our city would be faced with the distasteful choice of either raising taxes or cutting service. Given our present border city disparities, this is in reality no choice at all.

What adds insult to injury to the situation, is the fact that the State of North Dakota in 1980 ranked 11th in the amount of per capita federal aid coming back to the state, while Minnesota ranked 39th. During 1980 the State of North Dakota received $2,550 in federal funds for each person living in the state, while Minnesota received $1,980 for each person.

It is for these reasons, that I wholeheartedly endorse Senator Durenberger's New Federalism proposal alternatives which will help reduce some of the disparities which exist among states because of a varying capacity to raise revenue. I do not expect nor do I advocate that the federal government equalize all states. I believe that a certain amount of competition among the states is healthy. If some states want to provide fewer programs and do with less, I believe that they should have that prerogative. However, if energy rich states are allowed to export the costs of their government without any controls, then it seems to me that the federal government ought to take the state's fiscal raising capacity into consideration in determining the final shape of the New Federalism program. It seems that the only way in which that can be accomplished indefinitely, is through the kinds of proposals that Senator Durenberger is advocating.

Mr. Chairman, Members of the Committee, thank you for this opportunity.

MORRIS L. LANNING

Mayor of Moorhead, Minnesota

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